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# WORLD ECONOMIC PROBLEMS

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*Nationalism, Technology & Cultural Lag*

by

C. ADDISON HICKMAN

PITMAN PUBLISHING CORPORATION

NEW YORK

CHICAGO

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SIR ISAAC PITMAN & SONS (CANADA), LTD.

Toronto

PRINTED IN THE UNITED STATES OF AMERICA

Tensions within and among allied nations were already developing during World War II. With the close of that war, long-range cooperation is proving difficult to achieve. In part, the frictions have stemmed from disagreement in principles and convictions as to the character of the postwar world and how it should be organized. They have also been caused or accentuated, paradoxically, by war-weariness and a paucity of long-range principles or convictions. Expediency, both as a goal and as the basis for immediate action, is no more likely to produce stable relationships among nations than is an unresolved cleavage of opinion. Such frictions, in evidence during the war and of major concern after its close, indicate again that war and peace are simply part of a historical spectrum.

Understanding of the basic social, economic, and political factors which have been at least partly responsible for Twentieth Century breakdown is now essential. It is the purpose of this book to probe into these forces which have shaped and molded the world, far antedating the two World Wars but provocative of both, and which appear to be fully as potent and disruptive in this postwar era. We do not attempt to produce, copyright, and market a nostrum or a blueprint, but we do hope to furnish some mortar which may be useful in establishing a foundation of analysis.

The authors are either economists by profession or have strong secondary interests in economics. We believe, however, that analysis of world disorder solely from the economic viewpoint is not only incomplete but self-defeating. In our book, therefore, though emphasis is continually placed upon economic dislocations and problems, these economic aspects are treated as facets of a broader social process. Not only is this

frame of reference maintained, but in addition specific analyses of cultural lag, feudalism, ethnocentrism, nationalism, and population trends are placed in juxtaposition with discussions of cartels, trade barriers, and unemployment.

The book is divided into three sections. The first, entitled "Roads to Chaos," consists of three chapters. These chapters deal with some of the long-run fundamental forces that have brought world-wide conflict, instability, and economic maladjustment. Included are analyses of cultural lag, political and economic nationalism, perverted technology, and population trends disturbing to a disorganized world. The second section "The Impasse," has six chapters that deal with the profound economic dislocations that resulted from world breakdown and in turn facilitated further distortions. These chapters deal with the collapse of the formerly world-wide trading system, the malproduction and maldistribution of vital minerals and raw materials, the growth of cartels, the spread of cyclical unemployment, and the accentuation of population pressure. The concluding section, "Unfolding Horizons," consists of five chapters. These encompass the essential function that effective world economic controls must perform; the groping and often abortive attempts during the modern era, especially in the interwar period between World Wars I and II, to establish effective world organization; and the contemporary drive to establish new political, economic, and social institutions on an international scale. In the final chapter, the strands of the book are brought together as of today, and the effect of World War II upon the paralyzing impasse of our age is appraised.

Included at the end of the book is a partial bibliography, organized on a chapter-by-chapter basis, and intended to be useful to those who are interested in exploring further this vital if perplexing problem of world breakdown and a global economy. These listings do not and cannot include all possible books, periodicals, journal articles, monographs, pamphlets, and documents. The literature in this area is enormous, and

most of us must necessarily ration our reading. Neither does the bibliography even include all pertinent works, for some are not generally available, others are so technical as to be of only professional interest, and some are doubtless inevitably if regrettably merely overlooked. Nevertheless, the function of this partial bibliography is to allow the reader to do further exploring on his own. In order to make such exploration fruitful, most of the definitive or provocative writings in the respective spheres are included, and the list offers books, periodicals, and documents containing many approaches, viewpoints, and conclusions, not merely those of this volume.

My ten associates shared in the ferment from which this book grew, did much of the initial writing, and have offered additional ideas and criticism as the manuscript assumed final form. At the inception of the study, all were members of the staff of the State University of Iowa. At present, eight remain or have returned to Iowa, while Howard R. Bowen is Economist of the Irving Trust Company, New York City, and David Lynch is a Principal Economist in the Tariff Commission, Washington, D. C. All have primary or secondary professional interest in economics, although Harold W. Saunders and Carrol Mickey are staff members of the Department of Sociology, Harold H. McCarty and Kurt Schaefer are staff members of the Department of Geography, and Walter L. Daykin, Paul R. Olson, Wendell R. Smith, and Leo W. Sweeney are staff members of the College of Commerce.

The original impetus to this manuscript came from an economics seminar, composed at that time largely of the above-named group. After months of discussion and exchange of ideas, a division of labor was arranged and a symposium attempted. The resultant manuscript was then turned over to the undersigned and edited, revised, and several times rewritten, to bring into an integrated whole the several approaches and concepts, reflecting the divergent professional interests of the

contributors. In the process, chapters were pruned, combined, or eliminated and several new chapters were written. Thus it is difficult to focus primary credit or responsibility for the material found in many portions of the book. As a result of this process, it does not necessarily follow that all contributors to the original manuscript are in complete agreement with all conclusions found in this book.

As nearly as can be ascertained, the specific contributions of the members of this group are listed below. These references refer to the original draft of the manuscript, and the respective authors are not necessarily responsible for the form or content of the end product. Howard R. Bowen wrote most of Chapter 10 and the first portion of Chapter 8. Walter L. Daykin wrote a part of the segment of Chapter 11 which pertains to the International Labour Organization. David Lynch contributed to Chapter 6, as did Harold H. McCarty and Leo W. Sweeney. Carrol Mickey wrote most of the latter portion of Chapter 9, relevant to scales of living throughout the world. Paul R. Olson wrote Chapter 4 virtually in its entirety. Harold W. Saunders wrote Chapter 1 and the first half of Chapter 9, which includes his theory of population pressure. Kurt Schaefer wrote at least half of Chapter 7. Wendell R. Smith contributed ideas which are reflected in Chapter 6 and throughout the book. The undersigned, in addition to editorial duties, wrote Chapters 2, 3, 5, 12, 13, and 14, most of Chapter 11, the second half of Chapter 8, about half of Chapter 7, and inserts of varying lengths found in most of the other chapters, and compiled the bibliography.

Special acknowledgement must be made to two other seminar members, who did not contribute to the original symposium manuscript but who played an important role. C. Woody Thompson, staff member of the College of Commerce, and John L. Gould, then and again now of the Sociology Department at the University, were present in the formative stages of the study. While pressure of work and

## PREFACE

entry into the service, respectively, precluded writing, their imprint is upon the book.

Several of our other colleagues and associates have been kind enough to read the manuscript, in part or in whole, and offer perspective and criticism. These include G. R. Davies of this University, who has also had a profound professional and personal impact upon most of those concerned with the manuscript. Howard Wright of the University of Maryland, and Leo Herzel, a student at Iowa, have also read and appraised portions of the manuscript.

Facilities of the College of Commerce and the Bureau of Business Research have been made freely available through the helpful consideration of Dean Chester A. Phillips. Clerical assistance at strategic moments was also rendered by a number of individuals. To all of the members of this friendly group we extend thanks.

C. ADDISON HICKMAN





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## PART ONE

# Roads to Chaos

*A* ANALYSIS OF Twentieth Century world disorder must begin with the roots of the trouble. These disrupting factors are many and have interacted upon each other and upon the world economy. A few of the pivotal forces at work, however, are sketched in this section. These include cultural lag, the growth of extreme political and economic nationalism, the frustration of technology, and divergent population trends. These disturbances are not of recent origin, but they have had a terrific impact upon the struggling world of our era. Until they are widely understood and perhaps made a partial basis for policy, even the foundations of a stable and peaceful world society can scarcely be built.





## CHAPTER I

# TECHNOLOGY AND CULTURAL LAG

**T**HIS CHAPTER attempts to outline the basic social factors underlying the present state of affairs among the nations of the earth. It endeavors to dissect the background of contemporary society and thereby to reveal the nature of the forces and processes that have produced the current dilemma. If a more stable and more livable world order is to be constructed in the aftermath of World War II, such an order must be built upon a substantial foundation. The laying of such a foundation may be facilitated by careful analysis and control of the relevant social factors. If the present struggle for world mastery is placed in its proper political, social, and economic setting, the critical factors among those that are relevant can be better appreciated and comprehended. Such an ambition is probably realizable only in part, since the social sciences are immature. If all existing knowledge in the fields of economics, sociology and the other social sciences were utilized to the full, however, productive analyses might result. At no time has it been more imperative, nor more nearly possible, for mankind to develop and exploit social technology.

In this chapter the "natural history" of the world economy is emphasized, in order to reveal some of the social factors basically responsible for the contemporary state of world disorganization. It is necessary to see our society's underlying causal conditions in operation and in their proper relations to one another. Study of the natural history of malfunctioning institutions, or of social problems, may accomplish the purpose.

It is assumed throughout this analysis that war is primarily a symptom, or an index, of social and economic disorganization. War as such will receive little explicit attention, but the basic conditions and processes responsible for it will be in the foreground, as well as the maladjustments arising from it. This treatment is not economic determinism, for even though the economic and the technological factors occupy the center of the stage, their interaction with social, cultural, and political factors will be constantly stressed.

### SOCIAL CHANGE AND CRISIS

The present continuing crisis in world affairs must be understood and explained in terms of social change and the readjustments which social change involves. Social problems, both those associated with wars and those that are not, are indices or symptoms of social disorganization. Indeed, social disorganization and conflict are the inevitable accompaniment of social change. It is only when social problems are placed in this context that their implications are revealed.

When approached from this point of view, our tension-ridden world represents a stage in or a phase of a long-run process of societal evolution. The underlying fact in terms of which world social and economic problems must be studied is a secular trend in the historical development of Western Civilization, a trend which reaches far back into the past and which is seemingly capable of being projected far into the future. *The basic trend to which reference is made is the expansion of the technology and culture of the Western World and its encroachment upon all of the lands and peoples of the earth.*

Viewed in this light, the present crisis becomes one in a long series of crises, each an outgrowth of the same basic trend. One of the natural consequences of changing conditions of life is frustration and rebellion, for behavior in conformity

with obsolete social standards is not satisfying. Violation of traditional rules occurs as group members endeavor to hit upon ways that work and will satisfy their needs and wishes. Confusion and conflict mount as persons become unable to predict the behavior of others, and no one knows what to expect of the other fellow. In the absence of common social expectations, social cooperation is difficult, if not impossible. Such crises endure until new forms of behavior are developed which represent efficient adjustment to the new situation, and until new common understandings and expectations are established.

The process of *social change*, then, involves two basic sub-processes. First, obsolete attitudes and habits once satisfactory are discarded. They now represent merely adjustments to situations or conditions that have ceased to exist or that have been transformed. Second, new modes of behavior, capable of satisfying human needs and wishes within the new environment, are adopted. Until the old, outmoded ways of life have ceased to be attractive and are discarded, and until the new behavior patterns have replaced them, life is problematic, persons and groups feel insecure, and unrest is chronic. Change and crisis are inseparably interlinked. As group attitudes change in response to newly emerging conditions, a new social order is necessary if the new attitudes are to be expressed and realized. Once new and appropriate social relationships have been produced, harmonized, and cemented through the development of new habits and ideologies which express and support the new relationships, the process of change is momentarily arrested.

This process of *change, crisis, and adaptation* has operated both within and among groups, from antiquity to date. Modern times have featured a series of crises, as human institutions have painfully changed. If the so-called modern era began about 1500 A.D., its new ideas and forces at work in Western Europe have produced three great upheavals prior to the

present crisis. First, the Protestant Reformation, which destroyed many of the religious foundations of the Middle Ages. Second, the French Revolution and the Napoleonic Wars, which destroyed most of the vestiges of absolute monarchy. Third, World War I, including the Russian Revolution, which has initiated profound changes, as yet incomplete in the institutions of Western Civilization. World War II and its aftermath may be considered the climax or culmination of the third upheaval, or they may be considered a fourth.

### *BASIC FACTORS UNDERLYING THE PRESENT WORLD CRISIS*

The crux of the crisis of our own age is to be found in the impact of modern science and technology upon the social relations within and among nations. The new conditions of life (to which all peoples on the face of the earth are in the painful process of adjusting themselves) are profound transformations in the nature of the social world resulting from the development of modern science and its partial application to the solution of human problems. Modern technology has outmoded many of the customary and traditional forms of behavior evolved in a simpler age. However, some of these customary ways of life persist and impede the attainment of social welfare.

The most characteristic features of Western Civilization are its science and correlative technology. The emergence of the scientific attitude of mind has provided the energy and instrumentality whereby the expansion of the culture of the West was made to take its historic form and direction. Before modern science could get under way, however, the Medieval philosophy of life was to be broken down and replaced by a world-view somewhat more optimistic, more "worldly," more conducive to the application of intelligence to the reshaping of man's relations to the universe and to his fellow

men. The old willingness to give in to fate and circumstance without a struggle and without the fullest use of human capacities was to be eliminated. According to the prescientific mode of thought, "It was not worthwhile to master and economize the resources of this earth, to utilize the goods and ameliorate the evils of this life, while everyone agreed, in theory at any rate, that the present was but a bad prelude to an infinitely worse or infinitely better future."<sup>1</sup> \* Such an attitude was not conducive to the rise and spread of modern science and modern technology. The basic attitude underlying and supporting Western Civilization is the belief that man can, through the use of logic and observation, understand and explain the processes of nature; that scientific knowledge can provide the foundation for techniques of control over the forces and processes of nature; and that through the application of a scientifically grounded technology man can, in part at least, be the master of his fate.

As this new attitude became more firmly entrenched, a series of scientific discoveries was set in motion and a sequence of derived inventions was effected. These operated to transform man's use of natural sources of energy, to increase his physical and mental mobility, and to accentuate the variety and complexity of his mode of life. Moreover, these changes resulted in new problems, especially in the realm of interhuman relations. New social adjustments were necessitated which have been accomplished only in part. The failure to bring about many of these needed readjustments in social relations lies at the bottom of most of our social problems. It is these long-delayed and much needed changes in human interrelationships that will constitute the imperatives of social policy in laying the foundations for a more stable and more peaceful world order.

\* The sources of this quotation and of other matter quoted or cited in this book are given in lists of Works Cited at the ends of the Chapters. See page 30.

## AN EMERGING WORLD ECONOMY

The basic process underlying the present disordered condition in world affairs is, then, one of social change involving the readjustment of social institutions and social relations to the scientific and technological advances of Western Civilization. The process more intimately associated with world problems is a subsidiary one, or an outgrowth. Specifically, this process has been set in motion by transition from an old world to a new world, from a world characterized by the presence of numerous relatively small, simple, isolated and self-sufficient human communities dispersed over the earth's surface to a world characterized by a "planetary economy" and the "Great Society."<sup>2</sup>

As scientific knowledge and its consequent technology developed, the means of communication and transportation were revolutionized. Distance and other geographic factors (such as mountains, oceans, and deserts, which had previously constituted insurmountable barriers to the transmission through space of goods, persons, and ideas) became relatively insignificant causes of social isolation as technology improved. The ease and rapidity of movement through space increased so tremendously that human habits and attitudes could not keep pace. This *cultural lag* became ever more acute as time went on until the old social adjustments, precarious at best, were snapped and severed. Until technological changes are completely assimilated into world culture our problems of adjustment will remain acute and seemingly unsolvable.

The nature and significance of the revolution in communication and transportation initiated by modern science and technology are ably described in the following passage:

All three components of economic distance have been shrinking at an astounding rate since the early nineteenth century. Communication has been most affected, long-distance transport costs for heavy goods relatively least. Improvements in personal travel have

been intermediate between these two, so that in this sense . . . , the trite remark that "the world is a small place after all" has become literal truth in modern times. As distances shrink, the area of economic interdependence tends to expand, and today, so far as technology of distance is concerned, we are well into the era of planetary economy. Still, the ultimate in the technology of travel, transport and communication has certainly not been reached. . . .

\* To look back from this point in the twentieth century at the changes in the very foundations of economic (and cultural and political) life wrought by recent advances in the technology of distance leaves one gasping. The world has been shrinking at a rate unprecedented in history, and it continues to shrink. At the same time, new methods of production have been introduced. Large-scale industries and specialized products have put a premium on wide markets. More exact adaptation of materials to function, rising industrial outputs, new inventions creating new wants, have brought a mounting demand for an unimagined variety and volume of raw materials, to be satisfied adequately only by drawing on widely scattered sources. In all these ways our scientists, inventors, and engineers have been pushing us in the direction of a unified, world-wide economic system. The profound consequences of this fact are as yet but dimly seen by citizen and statesman alike.<sup>3</sup>

The primary impetus to social change in the modern era was the increased physical and mental mobility resulting from these significant improvements in the technologies of communication and transportation. As men moved more easily over the earth's surface, culture contacts between previously isolated communities occurred and the cross-fertilization of cultures was initiated. The ensuing *cultural borrowing* accelerated the process of social change and necessitated further major readjustments in habits and attitudes. The expanded physical and mental horizons resulting therefrom meant entrance into a new and different social world. As the ocean-going means of transportation improved (including the new techniques of navigation—the compass, astrolabe, sextant, maps) the age of exploration and discovery began. With it came the realization of enormous opportunities for trade and



colonization awaiting the strong, the brave, the adventurous, and the frustrated. As new goods began to flow into Europe, new wants were created and old wants revived. Hence, new desires and new resources were provided simultaneously, and attempts to satisfy these desires were the natural consequence.

When the Industrial Revolution brought new machines and manufacturing processes, a huge productive capacity was created as some of the natural energies of the universe were harnessed and set to work. This new plant capacity stimulated trade and commerce still more, because it was now necessary to find both sources of raw materials and markets for the outpouring of the machines. Inasmuch as industry accentuates the process of urbanization, and since cities are completely dependent upon their hinterlands for their food supply as well as for other raw materials, a further powerful stimulus was given to the expansion of commercial activities.

These developments produced two significant and immediate results. First, economic activities began to be organized in terms of larger geographic areas, as nations proceeded to draw their sustenance from ever more distant places. Second, the increased economic productivity ensuing from the utilization of natural resources by the new technology gave rise to rapid population expansion. The population expansion in size and space made possible the achievement of a more complex division of labor, both occupational and territorial.

It was inevitable under these conditions that group isolation would break down and expanding communities would be thrust into ever more intimate contact with one another. Their previous social and cultural isolation was doomed when their economies began to merge. The expansion of world trade meant increased territorial specialization, which carried with it greater and greater interdependence among the communities participating in the expanding commercial activities. The

product of these processes was the emergence of an embryonic world economy.

### ECONOMIC INTERDEPENDENCE IN THE MODERN WORLD

At the present time there are few self-sufficient local economies left in the world. Most of the earth's surface has been brought within the orbit of world communication, transportation, trade, and ideas. As far as man is concerned, the globe has been compressed to the point where isolation is virtually impossible. Barriers have become boulevards as technology has speeded up, as oceans and land masses have been challenged by the airplane, and as the polar regions threaten to become well-traveled arteries. In 1522, when Magellan's expedition circumnavigated the globe, three years were required. By 1848, a fast clipper ship could circle the earth on conventional commercial lanes in about 160 days. In 1872, the speeding hero of Jules Verne traveled *Around the World in Eighty Days*. In 1929, a German airship went around the globe in a mere 20 days and 4 hours. In 1938, Howard Hughes attracted world-wide attention by flying a 14,824-mile course around the world in less than 92 hours. During World War II modern bombers and transports could readily halve this record, and the Air Transport Command was breaking prewar records with nonchalance and unconcern. Commercial airlines can truly assert that no point on the earth's surface is more than 60 hours by air from the home airport. With new plane designs, improved sources of power, and accumulated experience, air horizons are still expanding. While these developments are impressive, they assume full import only when translated into economic, social, and political terms. Localized human institutions, while adequate enough in an earlier era, are found to be increasingly unsatisfactory for controlling

technology that has revolutionized space, distance, and time.

The modern technology of warfare has produced a state of affairs in which virtually no areas remain immune from the effects of war, especially since the advent of rockets, jet propulsion, and the atomic bomb. Sooner or later, directly or indirectly, all nations and peoples are affected by the outbreak of international conflicts. The same can be said for modern business depressions, which now tend to spread rapidly outward from major industrial nations. Wars and depressions, perhaps the two most dreaded modern calamities, cannot be restricted to narrow spatial confines. In their far-flung effects they demonstrate just how interdependent the areas and peoples of the earth have become; in fact, they often impress the masses of men more than all the prophets, reformers, professors, and journalists belaboring these matters. Even these maladjustments, however, have not as yet produced the chaos and suffering necessary to dissolve completely the outworn habits, attitudes, and institutions of the prescientific age.

The world economy of modern times, when allowed to operate, resembles a gigantic organism. It consists of many specialized parts or areas all operating together as a working and functioning whole, and integrated by arteries of communication and transportation. The production and consumption of goods are organized through mechanisms of the market, primarily through the operation of a system of money prices. The exchange processes, serving to distribute economic surpluses so that they reach the ultimate consumers of the various goods and services placed on the market, are mediated at the centers of trade and finance.

To be such centers is the role of the great cities of the world. In them are concentrated most of the specialists and experts connected with the various activities serving the world economy. These highly trained and highly specialized persons keep their fingers on the pulse of the economy. They

analyze and interpret the news of the world in terms of their own interests and inclinations, and they offer the information which they obtain as the basis for policy formation. In short, they endeavor to gear the activities of their respective institutions, such as banks and import-export houses, into the ever-changing web of relations constituting the world economy. Since the orders directing and integrating the diverse activities of the planetary economy emanate from these centers of trade and commerce and since they exact a high price for the very scarce services rendered, they are referred to as *centers of dominance*.<sup>4</sup> These centers of trade, finance, and government are somewhat analagous to the cortical centers of the human nervous system. All of the world cities, great and small, are bound together into one great seamless web and each city is likewise bound to the hinterland which it serves and from which it draws its livelihood. All are "service centers" but they constitute a hierarchy ranging from world metropolises at the top—New York, London, Moscow, Tokio, and others—down through the regional cities such as Buffalo and Lyons, and on down to small towns of the local trade areas.

### *ECONOMIC AND POLITICAL DOMINANCE OF THE WESTERN EUROPEANS*

Inasmuch as modern science had its birth in Europe, that continent became the center from which came the scientific and technological influences responsible for the emerging world economy. The cultural advantages facilitated by the new technology also served to make the Europeans the leaders in this process. They directed the development and application of the new technology and exercised economic and political dominance over the more "backward" areas and peoples. The past four hundred years have brought the rise and

spread of Western Civilization, the periods of exploration, colonization, commercialization, industrialization, and urbanization. The tremendous productive capacity of the new world economy is evidenced by the fact that since 1650 world population has increased over 300 per cent, from one-half billion to two billion. However, the Europeans (including their descendants residing outside Europe) increased at twice this rate during this same interval, since they early obtained the major portion of the benefits derived from the expanding technology. This population expansion does not adequately reflect, however, the increase in productivity, since scales of living rose as well.

Three distinct steps were involved in this process whereby the world economy emerged.<sup>5</sup> First, trading centers were established on the rims of the continents, bound together by ocean lanes of transportation and communication and serving to integrate their own hinterlands as land facilities for transportation and communication were improved. Second, systems were designed to exploit the raw materials of the "backward areas," utilizing native labor under the direction of foreign overseers and technicians, with capital provided by foreign investors. Third, industrial centers were created in those undeveloped areas possessing the resources necessary to the application of industrial technology.

The third stage was initiated as the culturally retarded peoples assimilated the scientific and technological knowledge of the Western World. As this industrialization took place new centers of dominance entered into competition with the older centers and the economic and political leadership of Western Europe was seriously challenged. The industrialization of Japan and its struggle for "a place in the sun," as well as the development of the United States, Germany, Italy, and Russia, are outstanding examples of this stage of maturation in the world economy.

*CULTURAL LAG AND WORLD ORGANIZATION*

Many crises have accompanied the maturation of the world economy. They have been natural results of a process which forces highly differentiated cultural and national groups into ever more intimate contacts with one another. Because they evolved their basic cultural patterns during a prior period of relative isolation, their value systems clash and are in many ways mutually exclusive, and their economic and political institutions are often sharply contrasting. Each of the groups brought into the new world economy has been accustomed to independence and now finds itself forced to cooperate with other groups possessing more or less incompatible ideologies and mores. The readjustments involved in learning to live together as members of a "family of nations" are profound and disturbing. It was to be expected that wars and revolutions would be precipitated as the intensity of competition increased, as each group endeavored to obtain rights and privileges for itself. The problem of distributing in a satisfactory manner the products of the new economy gave rise to terrific stresses and strains upon group adjustments which were tenuous and precarious at best.

Such conflicts cannot be peaceably resolved in the absence of common values and understandings, and the process of cultural assimilation moves slowly with respect to these matters. Since, in contrast, the world-wide diffusion of technologies has proceeded at a rapid rate, the bases of a stable world order have been lacking. The nations of the world have been attempting to participate in a common division of labor for which they are unprepared, emotionally and morally. Thinking in terms of national sovereignty and local institutions, the various nations have failed to develop the orientation which a world economy necessitates. When conflicts became imminent, one of two alternatives was chosen: either a resort to arms and coercion in order to gain advantage, or a retreat into

the assumed security of self-sufficient isolation. Each is a regressive tendency and a reversion to a primitive form of adjustment.

International mores and institutions capable of achieving and maintaining social order within the world economy have been slowly developing. Their maturation has been greatly hindered, however, by the continuing existence of two vestiges or residues of a more primitive society: *ethnocentrism* and *feudalism*. Each of these is a product of the isolation and cultural primitivity of rapidly disappearing conditions of life, and each is conducive to war.

### ETHNOCENTRISM

*Ethnocentrism* means group self-centeredness and represents an inability to sympathize with or understand other groups having different customs and traditions or different racial traits or characteristics. It has been well described in the following classic passage:

Ethnocentrism is the technical name for this view of things in which one's own group is the center of everything, and all others are scaled and rated with reference to it. . . . Each group nourishes its own pride and vanity, boasts itself superior, exalts its own divinities, and looks with contempt on outsiders. Each group thinks its own folkways the only right ones, and if it observes that other groups have other folkways, these excite its scorn. Opprobrious epithets are derived from these differences. "Pig-eater," "cow-eater," "uncircumcised," "jabberers," are epithets of contempt and abomination. . . . The most important fact is that ethnocentrism leads a people to exaggerate and intensify everything in their own folkways which is peculiar and which differentiates them from others.<sup>6</sup>

It is both a product and a cause of social isolation. It constitutes a powerful barrier to peaceful cooperation or participation in a common division of labor.

Ethnocentrism is a universal sentiment standing in the way of fellowship. It is another of those zero-lines, like poverty, from which civilization has risen partially and painfully and to which it readily reverts.<sup>7</sup>

Primitive society was characterized by scattered and isolated communities, simple and self-sufficient. Isolation of such communities implies adjustment to different environments or conditions of life, with contrasting social experiences and considerable racial and cultural differentiation among the various groups. As isolation diminished with technological advance, these differences in institutions and mores became sources of friction. The divergences in mores and racial characteristics may be trivial intrinsically, but they often provoke disproportionate conflict, especially when coupled with other factors such as feudalism and economic pressures.

What "We" are and do is right and good, whereas what "They" do and are is wrong, contemptible, ridiculous, insensate. Hostility follows upon such a recognition of unlikeness. Sometimes it centers upon physical traits, as in the drawing of a color-line, more commonly upon contrasts in the mores, which need not be of any real consequence and are often trivial. . . .

What a man eats and how he eats it have been likewise momentous in estimating him; among people who cook, "Raw-eater" has been a term of contempt, and so has "Frog-eater" and "Hans Sauerkraut." Unconventional table manners have damned many an aspiring soul. So too with the mores in general; a peculiarity such as cannibalism or polygamy awakens in us a sense of strangeness, uneasiness, and suspicion, and the ground is sown for a crop of discord and hostility.<sup>8</sup>

Contact between groups initiated competition for lands, markets, and the products of an expanding division of labor. Conflicts ensued and in the absence of cultural restraints took a violent form. Since compromise and conformity are possible only when the values upon which persons agree are more important to them than the values about which they disagree,



sharp cultural contrasts among competing groups or nations with strong ethnocentric biases produced wars.

The most universal sentimental bonds that unite group members and distinguish groups from one another are kinship ties and locality ties. The Germans refer to these as *Blut und Boden*, or blood and soil. These two sentiments give ethnocentrism two dimensions: *racial* and *spatial*. Primitive societies rely mainly upon common ancestry as the basis of group solidarity. Modern nation-states emphasize the habitation of common territory as their basis of unity. Racialism persists in spite of its lack of scientific foundation. Modern psychology, anthropology, and sociology have demonstrated racial differences to be external, superficial, and insignificant in and of themselves. The social functions of racialism seem to include the rationalizing of superior status and the providing of an "escape valve" for accumulated emotions arising from social frustrations and economic conflicts.

The ideology of the Third Reich represented an attempt to combine the two and thereby insure the cohesiveness prerequisite to world conquest. The Aryan myth with its strong emphasis on racialism is a reversal to tribal tactics in a world of science and as such impedes the attainment of the humanity-mindedness which a world economy seemingly requires. Race prejudice is an instance of ethnocentrism in one of its most virulent forms; it is a cultural throwback and a frictional factor in a complex and interdependent world. Racial animosities are expensive luxuries in a world economy, for they operate to sabotage modern technological efficiency.

Ethnocentrism in a "family of nations" is manifested likewise in the glorification of the nation-state or in nationalism. It represents attachment through sentiment to a given area of land, more or less familiar, whose political affairs are managed by a sovereign government. To the loyal citizen, the nation-state is the final and highest social entity. To it the citizen gives his greatest devotion and for it stands ready to

make the greatest sacrifice, to lay down his life for his country. In many respects, nationalism takes on a large number of the characteristics of a religion.

For the modern man patriotism has become one of the first of duties and one of the noblest of sentiments. It is what he owes to the state for what the state does for him, and the state is, for the modern man, a cluster of civic institutions from which he draws security and conditions of welfare. . . . That patriotism may degenerate into a vice: chauvinism. It is a name for boastful and truculent group self-assertion. It overrules personal judgment and character, and puts the whole group at the mercy of the clique which is ruling at the moment. It produces the dominance of watchwords and phrases which take the place of reason and conscience in determining conduct.<sup>9</sup>

The present planetary economy seems to necessitate greater cosmopolitanism in basic group attitudes and values. If the present population of the world is to participate in a global division of labor, commensurate and compatible sentimental ties must be developed. The members of a world economy must identify themselves with that economy and they must associate themselves emotionally and intellectually with other human beings who function within it. Otherwise chronic frictions will produce recurrent economic and political breakdowns, and resultant war.

### THE NATURE OF FEUDALISM

The second principal barrier in the pathway of world social organization and world peace is the continued existence of *feudalism*. Like ethnocentrism, feudalism in modern society is a vestige or residue of a more primitive prescientific society. However, the basic conditions which originally gave rise to feudal institutions have long since disappeared. Nevertheless these institutions persist and, as an instance of cultural lag, impede the emergence of any form of social order compatible with modern science, technology, and world economy.

By feudalism is meant a certain set of class relationships together with their supporting habits, attitudes, and ideologies.<sup>4</sup> A feudal class structure is one which rests upon two basic reciprocal concepts: first, the concept of the privileged few and second, the concept of the domesticated many.

Many persons have identified feudalism with only that form of class relationships existing in a rural-agricultural society and hence believed that industrialism meant the destruction of feudalism in all its aspects. They have, however, overlooked the vitality of that basic combination of attitudes, habits, and ideologies that are included in the concept of feudalism outlined above. As an industrial civilization becomes mature and class mobility tends to disappear, the old notions are readapted to the new conditions of life. With this readaptation, feudalism appears in its new guise and while its outward appearance is changed it remains fundamentally the same.

The privileged few are presumed to have a monopoly of capacity and ability and are the only true humans, all other being to them near-humans, subhumans, or prehumans. This group, the privileged few, has and is believed to be entitled to a monopoly in consumption within the society. Their greater genetic capacities are presumed to give them superior powers of appreciation and enjoyment and hence they are assumed to be the only ones capable of full personality development. Within the feudal order they are by right and deference the only fully qualified consumers; so their desires, wishes and tastes become the ends and goals of the society to which they belong and in which they assume the dominant position.

The larger group constitutes a subordinate layer or an underlying population, the domesticated anthropoid animal whose energies are the source of economic and political

\* This interpretation of the term is widely used in sociology and other social sciences, although it is broader and less descriptive of a particular historical situation than is the conventional identification with an agricultural "manor-house" society. For an application of this concept to the modern United States, see Prescott Webb, *Divided We Stand*.

power, if properly articulated and directed by the few above. Unlike those of the privileged group who constitute a leisure class, those of the unprivileged many are the "hewers of wood and the drawers of water." According to the ideology upon which the system rests they are incapable of personality development, except in rudimentary fashion; they find their function to be that of contributing manpower to the society for its economic and political purposes. Since they do not possess the capacities for critical thought, "theirs [is] to do and die, theirs not to reason why." Since they are not capable of personality development, especially since they lack the powers to appreciate the "finer things of life," consumption is for them a means, not an end. They are permitted by the social system to consume per capita but a small portion of the economy's goods and services. Their scale of living is thus an efficiency matter, being only sufficient to maintain their numbers in that state of health and well-being essential to the achievement of the purposes set by their masters. To distribute the income of the society on a more equitable basis would lead to social waste because goods and services would go to large numbers of persons deemed unable to enjoy them while persons in the leisure class, few in number but possessed with great capacities for such enjoyment, would be deprived of their "natural and lawful heritage."

When a feudal system becomes stabilized, the process of culture transmission by contacts between the generations makes it self-perpetuating. Once mature in this sense, the feudal organization exhibits several characteristics. First, there is almost complete absence of class mobility, personal status being a matter of birth and ancestry. Second, there is a minimum of contact and association between the members of the two classes, just enough existing for the rulers to direct the ruled in their social routine. Third, occupational differentiation is highly developed, the feudal nobility having a monopoly on economic, political, and religious leadership, with the

commonalty usually performing the menial and ungentlemanly tasks. Fourth, spatial segregation is customary, the two classes living in separate sections of the community, the nobility inhabiting those parts of the area which are most desirable, the common people using the more undesirable residential sections. Fifth, different modes of conduct are expected, as reflected in interests, activities, social codes, manners, morals, food habits, and habits of dress. Sixth, there is relatively perfect accommodation to the system on the part of all members of the society, members of each class knowing and rationalizing their respective roles, unrest being conspicuous by its absence. Once such a class system is established, the members of the two classes live in a symbiotic relationship with each other, best described by the term domestication.

Feudalism apparently had its origin in conquest and subjugation,<sup>10</sup> and in war it seems to have had its *raison d'être*, its continuation and perpetuation. This thesis is contested or questioned by some European and American sociologists. In any event, wars have facilitated and accentuated, if not always initiated, feudalistic societies. Historically, feudalism emerged when peaceful and prosperous agriculturalists were conquered and subdued by hardy and warlike nomads. The conquerors appropriated the wealth of the conquered, which consisted mainly of land, as the principal form of wealth.

The conquerors, upon appropriating the land of the former possessors, became a class of landlords living off the tribute which they exacted from the conquered peoples. In the main, the tribute or rent exacted was equal to the size of the agricultural surplus. The masses lived at the bare margin of subsistence and the conquerors, the new feudal nobility, enjoyed whatever luxuries the economy could produce. Once established, the feudal nobles tended to be located in the most strategic places and roles.

This distribution was necessary for two reasons. In the first place, the feudal elite had to be able to prevent or elimi-

nate incipient revolts from within. In the second place, they had to be able to ward off attack from without, whenever other predatory groups menaced the privileged position achieved through previous but similar conquest. In such a case, war between the already established feudal nobility and the attackers from without resembles a clash between predatory animals as they fight for possession of the body of the prey.

The constant threat of revolt from within and attack from without necessitated the best possible political organization among the feudal nobles in order that their privileged position be maintained. Because of the insecurity always present in such an order, the feudal nobility thus became a military caste, monopolizing both the means of violence and the positions of military leadership. It also formed a cult glorifying the arts of warfare and the deeds of valor by which the social order was established. Under the feudal system education has traditionally been the prerogative of the few—consisting mainly of training in the arts of war, of government, and of being a gentleman—while religion is primarily for mass consumption.

### *FEUDALISM AND THE INDUSTRIAL ERA*

The Industrial Revolution, representing the rise, development and impact of modern science and technology in contemporary society, drastically changed the form and structure of this early type of feudalism. This fundamental modification involved a shift in the strategic form of wealth, capital replacing land as the pivotal factor of production. The capitalist challenged the landowner as the dominant figure in the society, and the class structure was turned topsy-turvy. However, many of the old class habits and attitudes persisted and a new type of feudalism emerged, namely industrial feudalism.

The industrial elite, or leisure class, derives its income principally from the ownership of capital rather than land. But

when the social order has crystallized, feudalism is reproduced in virtually every other respect. Moreover, given sufficient time, the persons and families owning the factories and those owning the fields (particularly the new strategic natural resources such as coal, iron, petroleum, and timber) are sometimes the same group. This merging of capital holdings and land holdings, as well as the continuation of ownership and the control which accompanied it, is accomplished by means of a new social invention and institution, the corporation.<sup>11</sup> The period when the owners of capital constitute the new elite and are in the process of replacing the old landed nobility, and when the owners of industry are not identical with the owners of land, is a transitional phase in a much longer process. Ultimately the two classes are likely to coincide.

Under the new industrial dispensation the basic class relations are reinstated. The concept of the privileged few is again brought out, dusted off, and introduced to rationalize the new order of things. The laboring classes, the industrial proletariat, replace the serfs of old as the domesticated anthropoids deemed incapable of personality development, unfit to govern, able only to do the obnoxious work of the world. Conspicuous consumption, leisure, and waste remain the prerogatives of the elite along with the positions of economic, political, and religious dominance.<sup>12</sup> The concepts of the "fit" and the "unfit" are added to rationalize the going scheme of things. This rationalization is often termed "social Darwinism."

In industrial feudalism the property system, when it includes inherited fortunes transmitted through family lines, produces class lines as self-perpetuating as those produced by land tenure under agricultural feudalism. Marriage takes place within rather than across class lines, class mobility ceases, contacts and associations rarely transcend class barriers, segregation again appears, and occupational mobility slows down

with noncompeting groups again becoming more and more pronounced.

In industrial feudalism the laborer becomes a "factor of production," the phrase connoting an impersonal relationship and describing a depersonalized being necessary to the productive processes but incapable of directing them. The cooperation of the laborer is obtained through purchase on the market—that is, payment of a wage in return for "voluntary" cooperation. However, the wage reflects the relative abundance of labor service, and the wage worker, like the serf, may hover close to the margin of subsistence, frequently even below a true efficiency level. This failure of the common people to participate in the higher levels of consumption is rationalized or justified in terms of their incapacity to enjoy the finer things of life, their proximity to the status of the brute. If and when the laborers become adjusted to this state of affairs they constitute once more a set of domesticated animals.

### *FEUDALISM, WORLD ECONOMY, AND WAR*

Such rigid feudal caste systems render very difficult the necessary adjustments to the world-wide spread of technology. Indeed, in a shrinking world, where the means of transportation and communication are undergoing revolutionary expansion and where nation-states are being thrust into ever more intimate contact, feudalism may well precipitate wars. In such a world the status of the feudal class of any nation depends upon the size and wealth of the area over which it rules and the number of subjects whom it controls. Since feudal prestige can often be enhanced by expanding the territorial and population bases of the nation-state, the struggle for status among the feudal aristocracies of various countries has given a terrific impetus to war. Being more or less skilled in the arts of war, and often constituting a military caste whose prestige is closely associated with war-



fare, the aristocratic group by its nature resorts to war when it finds its position challenged. Since war itself has not been immune from the advances of science, improvements in the technology of warfare thus operate to concentrate greater implementation in the hands of a feudal nobility. Technological advance coupled with feudalism then makes a twofold contribution to war causation: it reduces spatial isolation among nations and throws their feudal aristocracies into a struggle for status; and it improves the arts of war through mechanization and thereby concentrates greater reservoirs of military power in the hands of the competing feudal classes.

Wars have also been utilized on occasion to maintain the support of the masses for the feudal social system. As the techniques of production undergo improvement within a national economy, the scale of living within the nation may rise. Within a rigidly feudal class structure, however, the new increments in productive capacity are usually utilized first to raise the level of living among the privileged few. Since the capacities of the feudal aristocrats for increased consumption of new goods and services have ultimate limits, an excess or surplus of productive capacity comes into existence. This surplus capacity of the national economy is often either drained off in war or wasted through unemployment. Within the property system of a strongly feudal society, it cannot and must not be used to raise the level of living of the commoners to parity with that of the elite.

Nevertheless, the commoners are not usually completely isolated from the impact of technological advance. Developing new tastes and desires during periods of invention, the commoners may be gradually shaken from their previous state of lethargy. They begin to clamor for participation in the rising level of living. If their new aspirations are thwarted, the resulting unrest may threaten ultimate revolution. Under these conditions a feudal aristocracy may rely upon a military venture against the enemies without in order to maintain its

own privileged position within. Such a diversion of the attention of the latently rebellious commoners is relatively easy when strong ethnocentric biases already exist. For ethnocentrism, as previously indicated, creates a foundation favorable to a demand for *Lebensraum* and political expansion.

In the more highly feudal nations the commoners have been encouraged to reproduce without limit. This fact is well illustrated by the prewar population policies and programs of Germany, Italy, and Japan. If this practice is to be maintained, it virtually excludes them from participation in a rising scale of living during periods of technological advance. If money wages rise because of a relative scarcity of labor, the increased earnings are absorbed in population growth. Being exhorted to produce and rear large families for the fatherland and perhaps being denied the information and devices for limitation of family size, the commoners of a feudal society cannot satisfy the ambitions acquired during periods of invention and social advance. Usually, given sufficient time, they resign themselves to conditions beyond their control but in the interim unrest is prevalent and severe. War not only channelizes this unrest toward the outside world and away from the internal feudal structure, but it also serves to rationalize the population policy of the nation. War, by making manpower scarce and nationalism strong, seems to be sufficient justification for a high birth rate and economic sacrifices. In this manner, ethnocentrism and feudalism operate to produce war while war likewise contributes to their perpetuation.

In some industrial nations feudalism may be and often is relatively weak. The aristocracy may not be well established; it may not be highly organized and cohesive. Quite often the feudal class in an industrial nation does not have a monopoly on the arts of war, for the mechanization of warfare, by making war totalitarian, necessitates mass armies and results in the breakdown of some of the feudal military

prerogatives. The commoners may also be hesitant to contribute their services unless they have something to fight for. Unless they are highly ethnocentric they may hesitate or refuse to participate.

Nevertheless, even those industrial nations in which the feudal structure is relatively weak may become bellicose and aggressive after prolonged economic breakdown. When chronic depressions occur because of the failure of the nation to utilize all of its productive capacity, the resulting frustration among the masses usually aggravates and accentuates their dormant but deep-rooted ethnocentric attitudes. Since war in its early stages operates to overcome unemployment, raise the wage level, and step up the tempo of business activity as manpower becomes scarce, a strong temptation toward national aggressiveness exists. Under these circumstances a feudal aristocracy can easily divert attention to the enemies without and the aristocracies do not hesitate to fan the flames of ethnocentrism. Often the attainment of national unity and solidarity during periods of war is a welcome relief from the internal discord and social disorganization which the group has experienced during a previous period of depression and frustration.

### *CHALLENGE FOR THE FUTURE*

In summary, then, ethnocentrism and feudalism are causal factors in international disorganization and war. However, either one alone is not a sufficient explanation of world disorganization and war. Nor is the combination enough. Rather, these two factors are impediments to social change in a world which needs certain institutional readjustments in order to catch up with itself. Modern science and technology have greatly reduced physical and social distance, have eliminated national isolation, and have produced a world economy. To operate efficiently the world economic organization needs a

highly synchronized political organization to accompany it. The social cooperation required to construct such a political organization is not forthcoming, however, because of fundamental social and cultural conflicts which have pervaded the emerging world civilization.

These basic culture conflicts are the results of contact among differentiated nation-states which have been adjusted to a previous environment of relative isolation. Their previous isolation made them highly ethnocentric. In the early stages of culture contact among them, wars occurred as attempts at adjustment to a shrinking world on the only level at which the colliding groups were capable. Out of these early wars emerged feudalism, which has persisted even in an industrial-urban civilization. Feudalism operated to institutionalize war as the form of international adjustment in spite of the fact that it was tremendously costly in life and goods and from the long view is social waste in its most extravagant form. Until these two bottlenecks are eliminated modern science and technology will continue to be sabotaged and perverted, the bulk of mankind remaining at a very primitive level of existence.

Rules of the game are seemingly necessary to group participation in a common division of labor, inasmuch as the cooperating groups strive to obtain major shares in the product to be distributed. The rules and regulations adopted must be in harmony with the nature of the economy in which they are to function; they must be compatible with the social and moral expectations of the participants. Otherwise the morale is lacking for efficient production.

Hence, the most important problem facing the world after World War II, assuming the desire to maintain the world economy, is that of devising and establishing an acceptable and workable set of rules of the game for the world economy. A process of experimentation, trial and error, has been taking place for many years during which the various nations en-

gaged in world trade have tried to hit upon such a set of mutual expectations. So far the endeavor has been in great part a failure. Ethnocentrism and feudal traditions are seemingly not conducive to the efficient functioning of a world economic organization designed to utilize modern science and technology peacefully.<sup>18</sup>

These hurdles are not insurmountable, however. World wars of tremendous magnitude such as those of 1914-1918 and 1939-1945 constitute world crises of such scale and intensity as to dissolve many of the outmoded habits and attitudes that impede the attainment of world social organization and an efficiently operating world economy. World wars and atomic bombs shake a society to its foundations, cause people to resurvey and reassess their culture, and hence may make them less resistant to social change. If World War II results in an overwhelming desire among the members of the world population to prevent further wars and thereby maximize the fruits of a world economy, its immediate cost may be written off in part. World-wide depression and total wars, plus atomic bombs, at least create a sense of interdependence and by so doing may provide mental preparation for the establishment of world-wide economic and political institutions.

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5. *Ibid.*
6. William Graham Sumner, *Folkways*, p. 13. Quoted by permission of Ginn & Co.
7. A. G. Keller, *Man's Rough Road*, pp. 149-150. Quoted by permission of Yale University Press.

8. *Ibid.*, pp. 149-150.

9. Sumner, *op. cit.*, p. 15.

10. Franz Oppenheimer, *The State*.

11. See A. A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property*.

12. See Thorstein Veblen, *The Theory of the Leisure Class*, also *Absentee Ownership*; and Gustavus Myers, *The History of the Great American Fortunes*.

13. Thorstein Veblen, *Imperial Germany and the Industrial Revolution*.

## CHAPTER 2

# EVOLUTION OF MODERN NATIONALISM

AS THE application of technology has been limited and distorted by cultural lag, it has run afoul of the increasingly powerful and self-conscious national state. For centuries allies, technological innovation and nationalism now seem reconciled only during sporadic outbursts of mechanized global war. Since this relationship between technology and political organization has contributed profoundly to the impasse of our era, an analysis of the growth, character, and economic foundations of the modern national state should provide perspective. Although the extreme, inwardly oriented form of political and economic nationalism has been a spectacular outgrowth of the Twentieth Century, the significant factors in its evolution are also woven in the fabric of more remote history.

Indeed, much of the peculiar character of modern nationalism, as well as its tremendous appeal, can be traced to the historical circumstances and environments that have influenced its development. To understand contemporary nationalism, and to understand the way in which nationalism and technology, once partners in the forging of our modern world, now pervert and distort each other, it may be necessary to explore briefly some eras and places that are concededly obscure. While Yugoslavia, Greece, Java, India, China, Argentina, the Soviet Union, and a dozen other nations have far more compelling immediate interest to us than has Europe of the Sixteenth to Nineteenth Centuries, insight into such pivotal periods may tell us something about the basic processes and problems of our own bewildered age.

The *national state* is a relatively modern phenomenon, although nationality and patriotism are both very old. Nations in any form resembling that now current do not date far beyond the Fifteenth Century, and the general spread of nationalism did not occur until the Nineteenth and Twentieth Centuries. Nevertheless, analysis of the evolution of the modern national state must begin with much earlier times.

### ELEMENTS OF NATIONALISM

A fusion of *nationality* (the consciousness of group identity) with *patriotism* (loyalty involving a physical area) could not occur until great migrations of peoples began to slow down and technology improved. National states in the modern sense encompass people living in a fixed territory, under a single political sovereignty which commands general allegiance. The cluster of attitudes bulwarking the nation, and often formed or exploited by it, can be described as *nationalism*. These attitudes may also be focused upon a national state that remains a goal rather than a reality, as with the Zionist movement, or Poland and the Balkan countries during much of the modern era.

Nation-states must also be based, however, upon considerations other than common political organization and a territorial identity. A number of elements of nationality, one of the basic ingredients of the national state, are facilitating factors although not universally necessary prerequisites. Included in this category would be a common race, common language, common religion, and perhaps even long-standing common tradition. In almost every instance, however, nationalities and the resultant national states have been convinced of their own status. In short, nationalities have consisted of groups who were acutely conscious of common ties and interests. When such self-conscious conviction, focused on a



nation, has transcended all other beliefs and loyalties, nationalism of the Twentieth Century variety has resulted.

### *ANTECEDENTS OF NATIONALISM*

The empires of ancient times, though attracting the patriotism of large numbers of people, usually embraced many nationalities. These sprawling, heterogeneous imperial conglomerations—both in Europe and in Asia—included a host of peoples divergent in language, race, religion, culture patterns, and allegiance. The primary loyalty of peoples encompassed by the Roman Empire, for example, was normally centered either in Rome or in a particular province, city, or locality. The difficulty experienced in communication and transportation, despite the excellent Roman roads, served to limit the universalism of that period.

During the Middle Ages, Europe was dominated by a strange blending of localism and universalism. Actual government and economic life were localized, largely because of primitive technology. Superimposed upon this localism was a universal church, as well as the remnants of ancient imperial institutions and modes of life. While men lived in and served their feudal units, they also felt the compelling force of a universal, Catholic religion. It is probable that the feudal system in Europe could scarcely have assumed its peculiar character had it not been preceded by ancient empires. However, as technology slowly and then rapidly improved, the localized character of economic and political life began to be undermined. New means of transport, exciting new discoveries, and migrations made a static localism very difficult to maintain. In certain Western nations, such as England and France, a new commercial middle class was rising and chafing at feudal restrictions. Indeed, impulses transcending local boundaries began to be felt long before 1500 A.D., the date conventionally designated as ushering in the modern

historical period. The momentum of this drive toward a broader political and economic organization was probably evident as early as the Tenth Century. In any event, the first strivings that culminated in the modern national state could be observed very early in the feudal era.

### *NATIONALISM PRIOR TO 1800*

National consciousness, mounting during the late Medieval period, was exalted at the dawn of modern times. During the Fifteenth to Eighteenth Centuries, certain critical differences between national groups became so marked as to impel the rapid if erratic rise of nationalism. Among these were the rise of national vernacular languages, economic upheaval and progress, and religious and cultural movements.<sup>1</sup> Even in those areas which did not become national states until the Nineteenth or Twentieth Centuries, these influences encouraged early tendencies toward nationalism.

The history of the national state prior to 1800 was dominated by two nations of Western Europe—England and France. These were perhaps the first great nations of modern times, although Portugal, Spain, Sweden, Denmark, and Poland also early achieved and in some instances maintained national status. In England and France, nationalism was facilitated and accompanied by the rise to power or influence of the commercial middle class. As a result of this striking historical correlation in the cases of England and France, the impression became current that national states have invariably arisen in connection with the rise of a middle-class regime. This conclusion, however, does not necessarily follow. Indeed, as will be demonstrated shortly, many national states have arisen under quite different circumstances, sometimes in association with the defeat rather than ascendancy of the middle classes.

In England, a strong, self-conscious national state had

emerged by 1485. The Tudor dynasty, ruling in a perilous period, was allied with the commercial group, both being opposed to the Church and the feudal nobles. The king furnished prestige while the middle class provided wealth. This alliance, temporary but potent, served to eliminate or de-vitalize most of the important feudal powers still existing in England. The final defeat of Spain a century later, in 1588, confirmed the new national status of England, ratifying by force of arms a domestic achievement. The florid nationalism of Shakespeare's time was probably an outgrowth of this decisive victory at home and abroad. Ultimately—after the English national state had been created, the national peril alleviated, and the middle-class triumph largely completed—the alliance between the middle class and monarchy was ended. During the Seventeenth Century, especially after the Cromwellian Revolution, the driving force of the commercial class came to be focused in Parliament, which now dominated England and continued the process of domestic integration and international expansion.

France experienced a similar process, although the complete triumph of the national ideal was somewhat belated. The rise of the French monarchy was also achieved with the collaboration and active support of the middle classes, both tilting against feudal nobility, whether secular or clerical. The French nation had emerged and had been consolidated long before the French Revolution, although that upheaval doubtless accentuated nationalism not only in France but throughout the continent. The foundation for a powerful state had been laid by the time Henry IV was assassinated in 1610, and the national power of France was flaunted before Europe under Louis XIV later in the Seventeenth and early in the Eighteenth Centuries. Under Louis XIV there existed two rather antagonistic systems of administration—aristocratic and bourgeois. At the outbreak of the Revolution, the French peasant had already increased his ownership of land; the

basic vitality of feudalism had long been sapped; and the merchant classes had already been partially satiated. Yet feudal debris cluttered the French political, economic, and social landscape, and it was to remove this debris that the Revolution was launched. As in the case of the English victory over Spain, the Revolution ratified and consolidated but did not initiate the triumph of nationalism.

By the close of the Eighteenth Century, nationalism was approaching maturity in some parts of Europe, but was just emerging in others. In England and France, despite the energizing influence of the revolution in the latter country, national ambitions were seeking new outlets. This activity was evidenced by the elaboration of mercantilist regulations and by the incessant colonial struggle between the two nations. In Eastern and Central Europe, as well as in the United States, nationalism was gaining momentum very rapidly. The benevolent despots (including Frederick the Great of Prussia, Catherine and Peter the Great of Russia, and Joseph II of Austria) were symbols of ascending nationalism in many parts of Europe during the Eighteenth Century. The Nineteenth Century was virtually to complete the process of nationalizing Europe, and to bring nationalism to North and South America and to portions of Asia.

### *NATIONALISM AFTER 1800*

During the Nineteenth and early Twentieth Centuries, the scope of nationalism was extended enormously. National states were created or proposed in every continent. Nationalism, under the revitalizing influence of industrial technology, also advanced apace in the older national states of Western Europe. Perhaps most spectacular of all was the break-up of vast, conglomerate, nonnational states and empires. The Hapsburg, Ottoman, and Muscovite Empires were torn apart, resulting in the creation of a host of national states of various

sizes and varieties. During this period the Dominion movement in the British Empire also gained momentum, and such colonial areas as India became increasingly restive.

The Nineteenth Century, in many respects, was one of the most unusual centuries in modern history. During this period, modern technology and industrial expansion facilitated the development of economic internationalism. Trade and investment moved with relative freedom over the face of the earth. Free trade became a thoroughly rational policy for England, a country which enjoyed industrial dominance through superior technology and therefore was in a position to benefit from the establishment of a complementary world economy. Since England relied upon the importation of vast quantities of foodstuffs and raw materials, and upon export markets to pay for them, trade restrictions would have been contrary to obvious public policy. Other nations were willing to join in this internationalism since they needed the cheap manufactures and semimanufactures that England could produce. This complementary exchange of British finished products for foreign raw materials and foodstuffs rested not only upon superior English technology but also upon continued increases in world population. Although the birth rate throughout much of Europe had already begun to decline, the repercussions of industrial technology upon population growth were not yet fully evident, because of the declining death rate.

Yet while economic internationalism had now been rendered feasible, a simultaneous flowering of social and political nationalism featured the century. Middle-class liberals in France, England, and other countries usually supported this nationalism, since it brought internal unity and freed Western Europe of the last vestiges of feudalism. In such countries as Germany, however, the new nationalism was built upon the triumph or at least the survival of feudalism. That fact was not, however, fully apparent to contemporaries. The apparent

contradiction between economic internationalism and social and political nationalism was masked by the economic supremacy of Great Britain. The almost complete industrial and commercial dominance of that nation through much of the Nineteenth Century served to disguise the economic fallacies involved in this paradox. When Germany, France, the United States, and other nations began also to industrialize, and when population growth began to slacken over much of Europe, the day of reckoning approached.

The most enlightening examples of the birth of new national states during the Nineteenth Century occurred in Germany, Italy, the Balkans, and other areas of Eastern and Central Europe. It now became fully apparent that nationalism and economic liberalism were not necessarily concomitant, and that the two movements might on occasion actually be antagonistic.

Although Prussia was virtually a national state by 1760, Germany did not achieve national unity until well into the Nineteenth Century. The conditions under which this nation emerged afford some perspective as to its subsequent development. At about 1000 A.D., prospects for a nation ultimately dominated by a thriving bourgeoisie seemed quite favorable. Other influences impinged upon the situation, however, and altered the internal political balance of power. German rulers were preoccupied with the so-called Holy Roman Empire; frontier conditions made it necessary to grant much autonomy to certain provinces; and economic conditions became somewhat less favorable than in Western Europe. Hence, the commercial middle class in Germany retired to political isolation, and became concerned with commercial ventures. Instead of actively participating in the creation and molding of the German national state, this group more or less retired to the political sidelines. While this solution appeared likely to enhance the immediate wealth and prestige of the merchants, it did not contribute to the establishment of a stable

national state. By 1200 A.D. the predominance of feudalism was evident. Germany emerged from the Medieval period with a concept of nationalism built upon an appreciation of nationalism in other states, a strong racial or group consciousness, and a persistent nostalgia for the past.

The Napoleonic Wars strongly influenced the development of the German national state, since the threat posed by France brought the Prussian Junker class into new prominence. This group was gradually losing ground before a rising middle class, but the necessity of prompt and decisive military action revived its traditional military function. The result of all these interacting forces was to create a national state which was to superimpose modern science and technology upon a basically feudal political order.<sup>2</sup> This technology made a powerful state feasible, but the resultant national strength appealed not only to commercial but also to other classes. The somewhat anachronistic character of the German state has contributed to the peculiarly self-conscious character of German nationalism.

In Italy the situation was somewhat similar, although the details were far from identical. The Italian states, despite the one-time supremacy of Genoa, Venice, and other cities as trading centers, did not readily merge under the impetus of a strong bourgeois class. Particularism, or a desire for local autonomy, was strong; the maneuvering of foreign powers intervened; and Italy had long been a dumping-ground of divergent races and nationalities. Because of their location the Papal States could not be blocked off as Bismarck was to stop the Hapsburgs. Indeed, the commercial classes eventually felt themselves bound to the same course as did the equivalent group in Germany—namely, isolation. Shakespeare wrote of Genoese, Venetian, and Veronese characters, but not of Italians. Leagues of commercial cities were established and were able to gain influence by cleverly playing popes and emperors against each other. Yet the result was not a politically

active or influential middle class in Italy. As Turkish power increased, and the European economic center of gravity shifted to the northwest, Italian power and wealth waned. Italy came meandering down to the Nineteenth Century without even a virile feudalism.

Mazzini, leading Italian philosopher of nationalism, was a Nineteenth Century liberal in many respects, advocating national sovereignty for many nations other than his own. Yet when a liberal Italian nation finally emerged during the 1860-1870 period, through Cavour's finesse, it could not long survive and remain vital. While this failure, obvious long before the close of the Nineteenth Century, may have been occasioned in part by a futile attempt to ape the political structure of other countries, it was also attributable to the lack of a stable middle class. As in the case of Germany, the bourgeoisie possessed wealth and prestige but not political dominance. The breakdown of the Italian attempt to create a national state based on a middle-class liberal foundation was evident long before World War I and was obvious after that conflict.

In the Balkans, a different process was notable during the Nineteenth Century. During that era, strongly antagonistic national states emerged throughout Southeastern Europe. From 1800 to World War I, Greece, Serbia, Romania, Bulgaria, and Montenegro squirmed or erupted from Turkish suzerainty, often with the assistance of Russia or other powers.<sup>9</sup> When Russia discovered through the Crimean War that she could not take Constantinople, she encouraged Balkan nationalism. In the process, not only Turkish but Austrian power as well were undermined, thus disturbing the balance of power in Europe. World War I resulted in the creation of Yugoslavia and Albania as separate nations. Yet these states developed through, and have been plagued by, factors that distinguish them from England and France, and even from

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Germany and Italy. The Balkans have not yet passed through the process of commercial expansion and industrialization that permeated the Western nations. Hence the racial factor has remained of some importance in impelling nationalism and accentuating fierce controversy in the region. No commercial nor industrial classes, with their existence dependent upon the elimination of localism, have yet dominated. Thus, almost every Balkan nation has been plagued not only by rivalries with the others but by internal conflicts due to race difference and the survival of tribalism, as well as the usual economic, social, and political frictions. Since the Balkans have been the bridge over which countless mass migrations have occurred, races are rather thoroughly intermingled. Hence any national state to be developed in this region has almost certainly been weakened by the facts of heterogeneous racial composition and cultural divergency. In short, nationalism in this region has not, in general, been liberal in the Western European sense; neither has it succeeded in ending age-old localism.

During the Nineteenth and Twentieth Centuries, nationalism spread over the remainder of Eastern and Central Europe, completing the pattern of European national states. These national movements could be divided into three categories, on the basis of their class support.<sup>4</sup>

In several instances the new national states were associated with the upper and middle classes, often being instigated by the landed aristocracy. In Poland and Hungary, for example, it would appear that the attempt was made to establish national states in order to bulwark the existing social order.

In other cases, such as Finland and Czechoslovakia, national states were launched with the whole-hearted support of the commercial class. The bourgeois classes were much less numerous and potent than in Western Europe, however, since this vast area of the continent was not as advanced economically.

In most instances where nations were thus supported by the middle class, this group could not carry the enterprise by its own strength and recruited support from peasants or the smaller gentry.

In such other new nations as Serbia and Bulgaria, agrarian or peasant support was the pivotal factor, although leadership was sometimes recruited from the intellectual group. This type of nationalism tended to be somewhat more radical than either of the two types previously mentioned, often resulting in sweeping agrarian programs.

In Eastern and Central Europe, new national states were established at the expense of empires which had dominated that area for centuries. During the Nineteenth Century and the first two decades of the Twentieth Century, and particularly in 1919, the Hapsburg and Ottoman Empires were virtually dismembered and the Muscovite, or Russian, Empire lost much territory. From 1860 through 1919, the following national states were carved in whole or in part from Hapsburg territory: Italy, Hungary, Austria, Czechoslovakia, Yugoslavia, and Poland. From 1832 through 1878, the Ottoman Empire was whittled down through the establishment of Greece, Serbia, Bulgaria, and Montenegro. In 1919, the Muscovite Empire was diminished through the loss of Finland, Estonia, Latvia, Lithuania, and Russian Poland, although Russia had expanded, especially in Asia, during the preceding century.

By the end of the Nineteenth Century, Europe was crowded with newly established or long existent national states, several of which were developing their own industrial systems. The rise of the United States and other non-European nations limited the field of foreign expansion, at least on the old-style basis. The European state system was already approaching its practical economic limits, as evidenced by the spread of "defensive imperialism" for overseas mar-

kets. This upsurge of imperialism became a sort of insurance policy against meager days to come and was quite different in motivation from the flamboyant imperialism of the Sixteenth and Seventeenth Centuries. A series of European alliances, designed to achieve and maintain a precarious balance of power, were also established. The desperate political maneuvering between 1870 and 1914 was an indication of the increasing difficulties implicit in maintaining the balance of power under the new economic conditions. As British economic dominance waned, the balance became almost impossible to maintain successfully.

The Twentieth Century has witnessed, of course, the further spread of nationalism throughout the world. This spread has taken the form of exaggerated national feeling in existing national states, but it has also been manifested in the formation of new nations. World War I and its outgrowing treaties spawned a number of these nations, many of which had hitherto not possessed territorial existence. New or renewed national states included Yugoslavia, Czechoslovakia, Poland, Estonia, Latvia, Lithuania, Finland, Albania, and others. The war also brought in its immediate wake the accentuation of national feeling within segments of the British Empire, the emergence of a hypernationalistic Turkey, the creation of quasi-independent Egypt, and stirrings throughout the world.

During the post-World War I period, many of these nations experienced acute difficulties in implementing their new political status. In a number of cases, national states emerged which were dominated by elements other than the middle class. Poland, for example, was created and maintained with the active and very powerful support of the landed aristocracy, which was scarcely conducive to land reform. Only very briefly, if at all, was she a liberal national state in the conventional sense. In such nations as Finland and Yugoslavia, however, the now-foreign landholding aristocracies did

lose their estates. The old assumption that nationalism and liberalism are necessarily parallel forces has been negated time and again since World War I.

The period after 1930 witnessed a new era of nationalist feeling, just as acute and significant as that which followed the French Revolution, the Napoleonic Wars, the Revolutions of 1848, or World War I. The world depression, culminating in World War II, accentuated nationalism in nearly every nation already possessing the status of a sovereign state. In certain instances, a new outburst of imperialism has been an outgrowth of this hypernationalism. In addition, new potential national states have struggled for their existence, especially in colonial areas. Indeed, the spread of virulent nationalism in areas once considered "backward," with largely extractive economies, promises to feature the post-World War II world. In Asia, Africa, and the Americas, nations or possessions once either politically or economically colonial are now seeking real as well as nominal independence. Perhaps the nature of the new nationalistic movement is most readily apparent in Asia, which has been in a state of profound social, political, and economic upheaval since World War I.

Two great forces have dominated Asia since World War I. First, there has been a movement throughout that vast continent toward the creation of new and truly independent national states.<sup>5</sup> In some cases this process has involved shaking off political ties to European or other Occidental powers. Saudi Arabia, Syria and Lebanon, Iraq, and the Philippines have largely succeeded in this attempt, although they remain economically linked to the Western World. Burma and India, Indo-China, and the Dutch East Indies, while in ferment with resurgent nationalism, appear to be in process of becoming national states. In other instances, the new nationalism has consisted of attempts to attain or reduce foreign economic domination, examples being Iran and Turkey. In the latter

case, political nationalism was accompanied by social and economic "westernization," under the leadership of Kemal Atatürk. Yet that nation has remained intensely self-centered and nationalistic, as evidenced by such slogans as "We are we and unlike anybody else" and "What bliss it is to be a Turk!" In a few instances—such as China, Palestine, and India—nationalism waxes but internal strife, whether of external or internal origin or both, prevents attainment of national unity.

The second outstanding political movement in Asia has been the rise of Japan as an aggressive, militarist, and imperialist national state. Although such tendencies were apparent prior to World War I, the new role of Japan became spectacular after that conflict, and with the advent of World War II. In Japan, the commercial and industrial classes allied themselves with the military caste, since the new empire was born of force. The alliance, however, has been an unhappy one on occasion for these middle-class groups, since the political center of gravity soon shifted to the military bloc and Japan's major military venture ended in disaster.

It should be noted that, while commercial and industrial change has struck hard at Japan, and to a lesser degree at Turkey, India, and China, the new nationalism throughout Asia is scarcely based upon Western liberal doctrine.

### *TYPES OF NATIONALISM*

Generalizations as to nationalism as such are often rather unsatisfactory, since a number of varieties of nationalism have existed. The nationalism of Rousseau and Mazzini obviously had little relation to that exemplified by Hitler and Mussolini. Such ideological differences are in part a reflection of underlying social and economic changes. The outlook and horizons of nationalism have shifted with shifts in domestic class structures and in the scope of economic organization. The strongly

localized outlook of Medieval Europe, based on the economy of the manor house, was broadened with the growth of exchange between city and land. As the national state developed, early forms of nationalism were in league with technology, in tune with the need for expansion and the development of a larger economy. But as technology rendered the national economy too narrow and restricted, self-conscious, integrated nationalism became a reactionary force.

Perhaps five types of nationalism have been dominant in modern times, although there have been all sorts of variations from these general patterns.<sup>9</sup> These include humanitarian, Jacobin, traditional, liberal, and integral nationalisms. Some nations have passed through several stages of development, in which nearly all of these types have appeared. The only type which has featured virtually all nations within recent decades is integral nationalism, although quite conceivably this too is but a passing phase.

During the Eighteenth Century, the first formal philosophy of nationalism—*humanitarian nationalism*—appeared. This doctrine seemed an escape from the evils and disorders of the time to a logical millennium, the faith in which was a feature of the Eighteenth Century "Age of Reason." Humanitarian nationalism was based upon natural law and pure reason, and was concerned with the well-being of the whole human race. Humanitarian nationalists were much concerned with the fortunes of other nationalities and national states, the concept of national self-determination receiving widespread support. This was the nationalism espoused by Bolinbroke, Rousseau, and von Herder and professed by the French Revolutionists. For some time it was the only kind of formal nationalism, although other inarticulate types of nationalism were evolving. Traces of humanitarian nationalism have not yet disappeared, despite the recent dominance of more self-centered types.

The Nineteenth Century was dominated in large part by three successors to humanitarian nationalism—Jacobin, traditional, and liberal. *Jacobin nationalism* received its name from the French political club instrumental in inciting the French Revolution. Attaining greatest immediate influence during the Revolution and the Napoleonic era, it gradually assumed several distinguishing characteristics. It became intolerant of internal dissent, relied upon force, assumed the character of a mass religion, and took on extreme missionary zeal. An important by-product was the emergence of a mass, or people's, army, which set a new military pattern for Europe. This type of nationalism energized the slightly waning French national state, giving it new vigor and drive. Napoleon was at least ostensibly "the child of the people," utilizing the concepts, institutions, and mass army of the Revolution.

Partly as a violent antidote to Jacobin nationalism, *traditional nationalism* appeared in England and on the continent at about the same time. This was the nationalism, based largely upon historical foundations, of Burke, de Bonald, von Schlegel, Metternich, and the Congress of Vienna. It was extremely influential over a period of nearly a century, some vestiges still remaining in the integral nationalism of the current era. Differences between Jacobin and traditional nationalism are deep-rooted and significant. One is based upon natural, the other upon historical rights; one is revolutionary, the other evolutionary.

A feature of Nineteenth Century England, of France, momentarily of Italy, and perhaps of the United States was the growth of *liberal nationalism*. This was the nationalism sponsored enthusiastically by the bourgeoisie, although it was abandoned by many of them after the middle of the century. Its most influential apologists were Bentham, Mazzini, Guizot, and Welcker, although its spokesmen were legion. Liberal

nationalism espoused the idea that each nationality should be a constitutionally governed political unit, and should be assured liberty of many varieties. The liberal national state has never been, however, intrinsically or necessarily democratic. In the economic realm it has traditionally protected private property and encouraged private enterprise. Often such nationalism involved free trade, antimilitarism, and anti-imperialism, although obviously such was not universally the case. The United States, nominally a liberal nation, steadily increased her protective tariff throughout the Nineteenth Century. Indeed, ostensibly liberal national states were in the forefront of the imperialistic procession during much of this period.

In many instances liberal nationalism gave way to *integral*, or all-consuming, self-centered nationalism. In those nations where liberal institutions had first been established, the satiated commercial class had begun to turn conservative. It has been suggested that this transformation has been occasioned by the use of force to free "oppressed minorities," the feeling of superiority engendered by success, and the new effectiveness of propaganda.<sup>7</sup> Perhaps even more basic than these contributing elements was the increasing conflict between improved technology and complete national sovereignty. As the abnormal economic stability and expansion of the Nineteenth Century was undermined by the spreading of the industrial system, more than one nation turned back upon itself.

This integral nationalism had appeared on the horizon before the dawn of the Twentieth Century, but it became dominant after World War I. This type of nationalism has been manifested not only in German, Italian, and Japanese Fascism, but in the almost world-wide resort to autarchy after 1929. As defined by Maurras, it is "the exclusive pursuit of national policies, the absolute maintenance of national integrity, and the steady increase of national power."<sup>8</sup> Paradoxically enough, nationalism has tended to become increas-



ingly all-absorbing during the very period when modern technology has laid the foundation for a truly planetary economy.

### *NATIONALISM AND THE COMMERCIAL REVOLUTION*

As indicated previously in this chapter, the rise of the early national states in Western Europe was greatly facilitated by an expanding commercial horizon. New trade routes, expanded transport facilities, introduction of more products, and improved technology served further to undermine the localism which featured the Medieval period. With greater ease of transportation and communication, commercial, political, and social contacts came to transcend purely local boundaries. It became possible to focus political allegiance over a much broader area than had hitherto been feasible. As investment and trading opportunities (within a nation and especially beyond its boundaries, as in India, the Indies, and the American colonies) beckoned to those with capital and enterprise, a strong and integrated national state seemed a prime necessity.

These new commercial, political, and social contacts did introduce a certain cosmopolitan element, as trade and investment spread to the ends of the earth. But primarily they resulted in internal consolidation and the rapid bulwarking and implementation of the national state. Strong nations in turn seemed to make somewhat more feasible the expansion of economic activity to nation-wide, continent-wide, and world-wide areas. This relationship was reciprocal, there being little or no inherent contradiction between the two forces. It must be observed, however, that integral nationalism had not yet come to dominate the scene even in the well-established Western nations. During this preindustrial epoch, nationalism was definitely allied with, rather than opposed to, technological improvement.

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In retrospect, it might appear that nationalism and the Industrial Revolution must always have been antagonistic forces. While transportation, communication, and technology knit the world into a planetary economy, national sovereignty has often circumscribed trade and investment. During most of the century after the initiation of large-scale industrialism in England, that apparent incompatibility was not operative. Indeed, it may be asserted that nationalism and industrialism long facilitated and supplemented each other.

The Industrial Revolution provided the technology, flood of goods, and improved transportation and communication necessary to the existence of strong and prosperous national states. Not only has this change in the mode and scale of production furnished a material base upon which many national states have been built, but it has also facilitated the reorientation of men's allegiance toward the nation. In the process, patriotism toward locality or province has been transformed into loyalty toward the national entity. Improved transportation and communication have made possible more effective utilization of propaganda and widespread mass education. The soapbox and handbill have been supplanted by the metropolitan newspaper, radio, telephone, and motion pictures. In short, technological advances following in the wake of the Industrial Revolution were instrumental in equating the economic, social, psychological, and political arenas of the modern national state.

On the other hand, for a long period the existence or growth of the sovereign national state facilitated the further spread of industrial technology. By breaking down or minimizing local restrictions over wide areas, national states opened up great new markets. This widening of the political area within which trade could flow was accompanied by an expan-

sion of the area of investment. While the Industrial Revolution came to draw upon distant markets and sources of raw materials, its most notable immediate effect was the enlargement of free trade and investment areas within nations. In this sphere, the emergence of the national state was a facilitating process. During most of the Nineteenth Century the predominance of England also made possible an area of virtual free trade and international economic expansion. This situation was beginning to alter, however, by the end of the century and has not been duplicated in the Twentieth Century.

As the Industrial Revolution began to spread to Germany, the United States, France, Russia, Japan, and other nations, conflict began to appear between nationalism and technology. As England lost some of her initial technological superiority, one bulwark of both international free trade and liberalism was weakened. When a number of nations became industrialized, at various times and at uneven rates of speed and intensity, this apparent harmony no longer seemed to exist. While industrial nations can trade very profitably with one another, they are more likely to impose restrictions than nations engaged in clearly complementary commerce. Most of these restrictions, originally designed to protect infant industries, are retained long after the infants attain lusty and cantankerous manhood. The number of trade restrictions began to grow early in the century, was accentuated by World War I, and was given new scope by the post-1929 depression. As a result, mass production, trade, and investment were no longer perfectly compatible with the prevailing nationalism.

The most significant factor which has caused these two forces to be increasingly opposed in recent decades has been the enormous improvement in technology.<sup>9</sup> This has resulted in drastically improved transportation facilities as foot power, oxen, and horses have been replaced or supplemented by railways, automobiles, and airplanes. Communication has been revolutionized by comparable changes; the Pony Express and

the courier have been supplanted by the telegraph, telephone, cable, radio, and television. Likewise, the scale of modern industry has been so expanded through new technology that mass markets and mass sources of raw materials are essential. These markets can no longer be found domestically in sufficient size, nor raw materials in sufficient quantity, to allow the full utilization of modern science and technology.

Modern technology has come to make possible a planetary or world economy, while nationalism of the integral variety tends to segmentalize economic relations. For centuries, nationalism acted as a liberalizing, freeing force which transformed political and economic localism. Since the closing decades of the Nineteenth Century, however, the national state has become increasingly self-conscious, while technology has come to be oriented toward a wider sphere. Instead of politically freeing and encouraging technology, nationalism has tended to restrict and circumscribe it.

If national states were convinced that it were in their interest to relinquish the right to employ their sovereignty to restrict and impede the operation of a planetary economy, this conflict might be resolved. Such an eventuality is by no means certain, however, as industrialization continues to pursue its erratic course in the world and nations wage sporadic wars. When technology and political organization conflict, it is by no means certain that technology will always win. Economic and technological advantages, including a high scale of living, are often scrapped if noneconomic considerations, such as military "security," seem more important.

The current emphasis on nationalistic policies aimed at full employment, as well as the desire of "colonial" areas to lessen their vulnerability to violent fluctuation and the exploitive character of much world trade, have also negated much technological advance. Chile, with her fading natural nitrate industry, has been a case in point. Nations pursuing restrictionist, highly self-centered policies should be cognizant,

however, of the contradictions involved. They should also recognize that pursuance of rigidly nationalistic policies in a world capable of maintaining a planetary economy may ultimately defeat the political or social goals sought.

### *NATIONALISM AND ECONOMIC CLASSES*

In the struggle of the bourgeoisie for power during the Eighteenth and Nineteenth Centuries, both the ascendancy of the merchant and the augmentation of national strength were achieved. On the basis of the experience of Western Europe and the United States, nationalism and liberalism, both political and economic, seemed almost reciprocal forces. Actually, this assumption was proved at least an overgeneralization late in the century, and further evidence to that effect was added in the opening decades of the Twentieth Century.

In Germany and Italy, a set of historical factors dictated that the national state would not involve the triumph of the middle classes. In the Balkans, racial and cultural factors were often much more potent during the Nineteenth and Twentieth Centuries than were economic factors. During the Nineteenth Century as a whole, outside of perhaps England and France, the movement toward nationalism proved stronger and more compelling than the rise of the middle classes. Indeed, the Revolutions of 1848 tended to weaken bourgeois power in most European countries but enormously accentuated the drive toward strong national states. Featherstone claims that nationalism during the Nineteenth Century not only gained ground at the expense of liberalism, but was a directly antagonistic force.<sup>10</sup> As was observed previously, most of the newer nations of Eastern and Central Europe were established primarily through the efforts of landed aristocrats, peasants, and workers, with occasional assistance by the bourgeoisie.

During World War I and the postwar period, national

states were created through the efforts of the classes mentioned above. Some were established as middle-class, or liberal-democratic, states. More commonly, these nations veered to the left or to the right, and did not duplicate the English and French pattern. It is conceivable, of course, that a longer trial and greater maturity on the part of some of these nations might have resulted in the development of liberal institutions. It is somewhat more likely, however, that any correlation which may have existed historically between the national state and liberalism has virtually ceased to exist. This observation refers particularly, of course, to the integral national state, completely absorbed in itself and devoted to restrictionist policy. Commercial and industrial interests, as well as liberal systems, might well continue to exist in a world of national states determined to cooperate internationally.

Significantly, the intimate relationship existing between liberalism and the national state has changed somewhat even in Western Europe and the United States. By about 1850, the commercial middle class in England had so thoroughly gained the ascendancy that it had gone defensive. The realignment of English political parties during the following decades, featuring the shift toward conservatism, was a manifestation of this change. A similar process occurred in France later in the Nineteenth Century. Something of the same sort had taken place in the United States by about 1900. With a potent element of the population now primarily concerned with protecting past gains rather than with expansion, liberalism entered a new and significant phase.

As yet, there is no conclusive evidence that nationalism and liberalism must always be incompatible. There are many areas of the world which require internal integration, much to the benefit of commercial and industrial groups. There is also no inherent reason why nationalism of a variety willing to modify sovereignty in regard to restriction of trade and investment should be hostile to economic liberalism. But to the

extent that national states of the extremist, integral type segmentalize the world economy, the dominance of the middle classes becomes increasingly difficult to maintain. In the period following World War I, very few thriving national states founded on bourgeois liberalism appeared, but a host of nations built upon other foundations were created. This development is an indication of the prevailing trend in the two decades prior to World War II, but no more constitutes a universal principle than did the one-time partnership between liberalism and sovereign national states.

A survey of nationalism in modern times reveals that the attitude of economic and social classes has varied from one instance to another, as the interests of each group appeared to dictate.<sup>11</sup> Only in a few instances, such as England and France, has a particularly vigorous bourgeoisie been able to maintain consistent control. The attitudes of merchants, industrialists, workers, peasants, and professors have also registered shifts from time to time, even within a single country. Likewise, those elements within nations which have opposed nationalism have changed character on occasion, as the nation and technology have altered their relationship to each other.<sup>12</sup>

### *IN RETROSPECT*

Throughout most of its history, nationalism has probably contributed materially to human wealth and material achievement. For centuries it served as a releasing, liberalizing force, making possible the utilization of modern technology, the extension of markets and raw material sources, and the reduction of feudal power. During the period prior to the late Nineteenth Century, stable national groupings were attained over very wide areas. This achievement was of the first magnitude, especially as it was often supposed that national states might provide the eventual foundation for a wider orientation.

Only since the middle or latter part of the Nineteenth Century has nationalism begun to prove excessively small, restricted, narrow, and violent. This contradiction between technological and political factors has been accentuated by the increasingly illiberal and self-centered character of much nationalism. To the extent that national states have been established and maintained as ends in themselves, as the sole bases for community, they have come to impede the attainment of world political or economic organization. Nationalism is today an important fact, constituting a rising rather than a declining Twentieth Century movement. Forces making for modification of sovereignty in the international arena, however, are also very powerful, especially over a long period. When their effect is finally felt, world economic organization will emerge, capable of fully developing a planetary economy and utilizing modern technology.

#### WORKS CITED IN CHAPTER 2

1. See Carlton J. H. Hayes, *Essays on Nationalism*, pp. 30-60.
2. For the classic development of this theme, see Thorstein Veblen, *Imperial Germany and the Industrial Revolution*.
3. For an interesting description of this process, see Wesley Gewehr, *The Rise of Nationalism in the Balkans, 1800-1930*.
4. See Royal Institute of International Affairs, *Nationalism*, pp. 81-113.
5. For a somewhat outdated but enlightening analysis of this process, see Hans Kohn, *Nationalism and Imperialism in the Hither East*, and *A History of Nationalism in the East*.
6. For a detailed analysis of these types, see Carlton J. H. Hayes, *The Historical Evolution of Modern Nationalism*.
7. *Ibid.*, pp. 224-231.
8. *Ibid.*, pp. 202-212.
9. For a vivid development of this theme, see Eugene Staley, *World Economy in Transition*, pp. 1-56.
10. See H. L. Featherstone, *A Century of Nationalism*.
11. See Royal Institute of International Affairs, *op. cit.*, pp. 264-276.
12. *Ibid.*, pp. 296-328.



## CHAPTER 3

# IMPACT OF BASIC POPULATION TRENDS

**I**N ANY study of the current world impasse, the influence of population trends can scarcely be ignored. Especially important in the international realm are quantitative changes—shifts in population size, and differentials in the rate of population growth among the various nations.

The tendency toward a declining rate of population growth in the mature industrial countries has contributed heavily to the breakdown of the Nineteenth Century system of complementary world trade. Differentials in population growth, especially in the light of drastic potential increases in “colonial” areas, promise further to force shifts in the world trading pattern. This breakdown, and these shifts, would be counteracted by new trade currents if it were not for social lag and extreme nationalism. If modern technology continues throttled by these factors, population trends may provide a foundation for chronic conflict and maladjustment in world economic relations. The international economic implication of these population trends needs now to be explored.

Although this chapter operates upon the assumption that the Western World’s population growth is slackening, admittedly that slackening trend is but one factor to be considered in analyzing world problems. It is with difficulty that one avoids attaching primary importance to these demographic factors, for they are indeed significant. But (as is indicated in preceding and subsequent chapters) there is also a host of important nondemographic factors. Insistence on this fact is not meant to minimize the influence of population trends, but

simply to acknowledge that other impinging factors have intensified or on occasion countered that effect.

Because of the existence of these other variables, clean-cut analysis of the repercussions of population trends is always difficult. Quincy Wright goes so far as to claim that there can be no determinate relation between population and international relations.<sup>1</sup> A general increase in world population might lead to cooperation or to friction. Extreme differentials in density might lead to interdependence, such as the urban-rural interaction, or the relationship between a mother country and its young colonies. On the other hand, these differentials might just as easily lead to tension, mass migration, aggression, war, and conquest. These facts lead many to discard the population or demographic approach to international trade, this decision being stated by Wright in these words: "It is safer to approach international problems from the point of view of public opinion, of political organization, of law, or of technology than from the point of view of population."<sup>2</sup>

This chapter does not accept that extreme position. While the effect of population stabilization or decline may not be as immediately apparent as the effect of these other factors, it is apt to underlie many of them. Hence, this chapter will focus its attention upon the influence of population trends, but will make no attempt to ignore or minimize the fact that other influences have been at work.

### *POPULATION GROWTH AFTER 1630*

In modern times there have been two notable "bench marks" where reversals of population trends can be noted. Around 1630 or thereabouts, population in the Western World began an amazing process of growth which was to continue unabated for over two and a half centuries. About 1870 to 1900 the rate of population growth in most of these countries began to diminish, and in France the reversal began

even earlier. At present, this second great phase is still in force, having obviously set in even in such formerly frontier nations as the United States. It appears quite possible, however, that a third phase may be about to appear in such "colonial" countries as China, India, and Brazil, where the impact of modern technology may curtail the heavy death rate and facilitate a marked upsurge of population growth.

In the period of roughly 300 years from 1630 to 1930, the population of the world virtually quadrupled. Most of this fabulous increase can be explained in the light of modern technology, which made it possible to feed and support more people and facilitated the rise of modern medicine. As one result of this unique era of population growth, so-called overpopulation became a haunting fear of the Nineteenth and Twentieth Centuries. Thus the controversy over the doctrines of Malthus was based upon experience and dealt with a matter of vast popular interest.

While a few research men realized that the enormous population increases of the Sixteenth, Seventeenth, and Eighteenth Centuries could not continue indefinitely, that fact was not generally accepted. Many recent books have been written on the tacit or explicit assumption that the earth's population will continue to increase at the phenomenal rate of the past three hundred years. Several studies have been made as to the possibility of settling excess populations in the polar regions, in the tropics, in portions of existing empires that cannot be settled by their present rulers, or in new land somehow to be found. Perhaps a reason was the failure to realize that much of this fabulous population increase was attributable to a fall in the death rate rather than to an increase in the birth rate. In fact, the birth rate had probably begun to fall in France late in the Eighteenth Century, and had begun to decline in England and elsewhere by about 1870. Obviously, this fall in the birth rate could not be permanently countered by the

declining death rate. This fall in the death rate had been brought about by increasing economic productivity, by the control of infant mortality, and by the checking of epidemic diseases. Yet there is still a life span, and the death rate cannot fall beyond the point fixed by it. Hence, as the fall of the birth rate continued in many sections of the earth, the rate of population growth in these areas began eventually to decline. This trend holds, despite the facts that some populations are still growing and that there is great divergence between population trends of individual countries.

Birth Rates, 1881-1885 and 1933-1936 <sup>a</sup>

Country (Present Territory)	1881- 1885	1933- 1936
Austria . . . . .	32.9	13.5
Belgium . . . . .	30.9	15.8
Bulgaria . . . . .	39.4 <sup>a</sup>	27.7
Czechoslovakia . . . . .	35.1 <sup>b</sup>	18.3
Denmark . . . . .	32.4	17.6
England and Wales . . . . .	33.5	14.7
Scotland . . . . .	33.3	17.8
Northern Ireland . . . . .	27.7	19.6
Irish Free State . . . . .	22.9	19.5
Finland . . . . .	35.5	18.0 <sup>c</sup>
France . . . . .	25.0	15.7
Germany . . . . .	36.8	17.7
Holland . . . . .	34.8	20.4
Hungary . . . . .	44.4 <sup>d</sup>	21.3
Italy . . . . .	38.0	23.3
Norway . . . . .	31.0	14.6
Poland . . . . .	41.9	26.3
Rumania . . . . .	42.2 <sup>d</sup>	31.6
Spain . . . . .	36.4	26.4 <sup>c</sup>
Sweden . . . . .	29.4	13.8
Switzerland . . . . .	28.7	16.0
Yugoslavia . . . . .	46.8 <sup>d</sup>	31.4 <sup>e</sup>
Australia . . . . .	35.2	16.7
New Zealand . . . . .	36.4	16.5

<sup>a</sup> Prewar territory, 1888-1890.

<sup>b</sup> 1901-1905.

<sup>c</sup> 1933-1935.

<sup>d</sup> Prewar territory.

<sup>e</sup> 1933-1934.

### DECLINE IN THE BIRTH RATE

This decline in the birth rate has been notable in the older and more mature industrial countries such as England, France, and Germany. Surprisingly enough, however, it has also affected most of the remainder of Europe and a host of outlying areas populated by those of European descent. Significantly enough, the birth rate is said to be declining also in such nations as Japan. Throughout much of the world parenthood has become in part a voluntary matter, and social, economic, and psychological factors have impelled a steadily declining birth rate. The table on page 61, covering a significant half century, reveals this trend in Europe and in two British dominions.

### DECLINE IN NET RATE OF REPRODUCTION

The declining rate of population growth, especially in the older industrial area, can best be revealed by the concept of *net rate of reproduction*. If we want to determine the true balance of births and deaths, the net rate of reproduction will furnish an adequate perspective. As the leading exponent of this index has stated:

This rate shows (on the basis of current fertility and mortality) the average number of girls born to a newly born girl in the course of her life, or, what amounts to the same, the average number of future mothers born to a mother of today. If this rate is one, it means that the present generation of females will, at their death, have been fully replaced by the girls they have borne.<sup>4</sup>

Thus, if the rate is one, the population is being maintained; if above one, it will increase; if below one, it will eventually decrease. This concept is one that really applies a generation hence, for the net reproduction index reveals the number of births per woman at any specified time relative to the number

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Trend of Net Reproduction Rates, 1895-1935 <sup>5</sup>

Net reproduction rate	About 1895	About 1910	About 1925	About 1935
Over 1.8	Ukraine			
1.6 to 1.8	Poland Russia Serbia	Bulgaria	Russia Ukraine	
1.4 to 1.6	Austria Denmark Finland Germany Hungary Norway Sweden	Denmark Germany Norway	Bulgaria Poland Union of So. Africa Japan	Russia (?) Japan
1.2 to 1.4	England	Austria Finland Sweden Australia New Zealand		Bulgaria Portugal Ukraine Canada Chile Union of So. Africa
1.0 to 1.2	Baltic Prov- inces	England	Denmark Finland Hungary United States	Holland Iceland Irish Free State Italy Lithuania Poland Spain
0.8 to 1.0	France	France	Austria England Estonia France Germany Sweden	Czechoslovakia Denmark Finland France Germany Hungary Latvia Luxemburg Northern Ireland Scotland United States Australia
Under 0.8				New Zealand Austria Belgium England Estonia Norway Sweden Switzerland

needed to supply at current death rates one woman of child-bearing age a generation hence. Thus, countries with a net rate of reproduction of less than one may continue rapid growth for a time because of an abnormally large proportion of the population in the childbearing ages.

Net rates for those nations whose statistics are sufficiently adequate to be used are revealing. In most countries, the rate has fallen since about 1895 to less than one, or at most slightly above one. Significantly, such countries as England, France, and the United States have fallen below one.

The net reproduction rate in the United States has declined from 1.11 during the 1925-1930 period to 0.96 in the years from 1935 to 1940.<sup>6</sup> Rates in other nations have slumped to 0.87 in France, 0.77 in England and Wales, and 0.74 in Sweden. While net reproduction rates remain above 1.0 in Japan, Russia, Eire, Poland, the Netherlands, Italy, and Bulgaria, they have continued to decline. In Germany, concerted efforts partially restored the net reproduction rate during the years just prior to World War II. In 1938, however, it still remained at 0.95, or below the rate required to maintain the population. It will be significant to note the influence that war has exerted upon this trend toward decline or stabilization.

### *POPULATION DIFFERENTIALS*

As is evident from the preceding table, nations differ enormously as to their net rate of reproduction, and hence their long-run population growth. Japan and Russia, with extremely high net rates, contrast with Belgium, England, and Switzerland, which have very low rates.

Analysis of population growth in Europe and in that part of the world predominantly inhabited by those of European origin reveals three groupings.<sup>7</sup> First is Soviet Russia, with at least 175,000,000 people, an enormous net rate of reproduc-

tion, and a sharply increasing population. Second is the combination of Southern Europe (Portugal, Spain, Italy, the Balkans), Poland, Lithuania, Holland, the Irish Free State, and Canada, with about 185,000,000 inhabitants and an over-all net rate of reproduction not to exceed 1.25. Third is the combination of Western Europe (excluding Holland and the Irish Free State), Northern Europe, Central Europe (excluding Poland and Lithuania), the United States, Australia, and New Zealand, with about 360,000,000 inhabitants and an over-all net rate below 0.9. If the population of Soviet Russia continues to grow as official figures indicate it has grown from 1924 to 1934, it would by the year 2000 amount to about 670,000,000. If fertility and mortality remain in Western and Northern Europe what they were in the mid-1930's, the current population of about 194,000,000 would by the year 2000 be reduced to about 150,000,000. These figures rest upon certain obvious assumptions, and are used not as a forecast but as an indication of the extreme differentials in growth even in a restricted portion of the earth.

For most of the remainder of the world, available statistics are so scanty as to render conclusions hazardous. It is believed that the net rate of reproduction of the Negroes in Central Africa, for example, is below one. Fertility in China may well be higher than it ever was in Western Europe, but death rates are terrific, and it is dubious whether Chinese net rates of reproduction are much above unity. In India, death rates remain high but have diminished sufficiently to allow enormous population increase during the past two decades.<sup>8</sup> Future population increases, potentially enormous, depend upon the extension of technology and the fall of mortality rates. In Japan, as indicated previously, fertility is declining, but so is the death rate, both being on the level of England just before 1900. If the birth rate in Japan continues to fall, especially with high death rates and disturbed sex ratios created by the war, it is unlikely that the current high net rate of



reproduction can long be maintained. The population of European and European-origin areas has increased from about 155,000,000 in 1770 to about 730,000,000 today.<sup>9</sup> It is claimed that the non-European population in this period rose from about 600,000,000 to something like 1,400,000,000. In this era, the proportion of the European and European-descended peoples to the total population rose from about one-fifth to about one-third. This rise in stature appears to be in process of reversal, however, as industrialization penetrates Asia and other hitherto undeveloped areas.

An over-all glimpse of population growth in the world from 1650 to 1933, by continents, is enlightening.

Revised Estimate of the Population of the World, 1650-1933 <sup>10</sup>

Continent	Millions					
	1650	1750	1800	1850	1900	1933
Europe .....	100	140	187	266	401	519
North America . . . .	1	1.3	5.7	26	81	137
Central and South America.....	12	11.1	18.9	33	63	125
Oceania .....	2	2	2	2	6	10
Africa . . . . .	100	95	90	95	120	145
Asia . . . . .	330	479	602	749	937	1,121
World total . . . . .	545	728	906	1,171	1,608	2,057

Continent	Percentage distribution					
	1650	1750	1800	1850	1900	1933
Europe .....	18.3	19.2	20.7	22.7	24.9	25.2
North America . . . . .	0.2	0.1	0.7	2.3	5.1	6.7
Central and South America.....	2.2	1.5	2.1	2.8	3.9	6.1
Oceania .....	0.4	0.3	0.2	0.2	0.4	0.5
Africa .....	18.3	13.1	9.9	8.1	7.4	7.0
Asia .....	60.6	65.8	66.4	63.9	58.3	54.5
	100.0	100.0	100.0	100.0	100.0	100.0

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Sharp differentials by countries, as well as by great areas, are revealed by the following table:

Number of Years Required to Double Population in 44 Countries <sup>11</sup>

Country	Years	Country	Years
Salvador .....	30	Rumania .....	72
Puerto Rico .....	32	Japan .....	75
Mexico .....	34	New Zealand .....	79
U.S.S.R. ....	35	Lithuania .....	79
Egypt .....	41	U.S. (Continental) . . . .	86
Philippine Islands . . . .	42	Bulgaria .....	87
Jamaica .....	43	Finland .....	88
Union of So. Africa . . . .	44	Australia . . . . .	89
Ceylon .....	49	Denmark .....	90
Albania .....	54	Germany .....	94
Argentina . . . . .	55	Norway . . . . .	124
Guatemala .....	58	Hungary .....	134
Yugoslavia .....	63	China .....	139
Netherlands .....	63	Latvia .....	151
Portugal .....	63	Czechoslovakia . . . . .	174
Uruguay .....	63	Sweden .....	193
Canada .....	65	Switzerland . . . . .	198
Poland .....	65	Belgium .....	365
Greece .....	66	Estonia .....	534
Chile .....	66	Spain . . . . .	770
Italy .....	69	England and Wales . . . .	2,310
India, Br. Provinces . . . .	71	France .....	*

\* Rate of natural increase is negative.

Similar factors are revealed in statistics relevant to the expectation of life in various countries.<sup>12</sup> Figures based on 1931 or 1929-1931 show that at birth, life expectation in New Zealand was 65.04 years for males and 67.88 for females; in the United States, 59.31 years and 62.83 years respectively; and in India, 26.91 years and 26.56 years.

Such sharp differences indicate drastically divergent death rates, especially infant mortality rates. These rates are estimated in the following table.

Infant Mortality in 42 Countries <sup>13</sup>—Deaths per 1,000 Live Births

Country	Year	Infant Mortality	Country	Year	Infant Mortality
China .....	1927	275	Guatemala .....	1938	101
Chile .....	1939	225	Italy .....	1939	97
Egypt .....	1939	198	Argentina .....	1939	92
Romania ..	1939	176	Uruguay .....	1939	82
India, Br. Prov. ....	1938	167	Estonia .....	1938	77
Ceylon .....	1939	166	Belgium ..	1938	72
Yugoslavia ...	1938	144	Latvia .....	1939	70
Poland ...	1938	140	Finland .....	1938	68
Portugal .....	1938	139	France .....	1938	66
Bulgaria ..	1939	138	Germany .....	1940	65
Philippine Is. ....	1937	137	Canada .....	1939	61
Hungary .....	1940	134	Denmark .....	1939	58
Jamaica .....	1938	129	England and Wales ..	1940	55
Mexico .....	1940	126	Union of So. Africa...	1939	50
Greece ...	1937	122	New Zealand .....	1938	50
Lithuania .....	1939	122	U.S. (Continental)...	1940	48
Czechoslovakia ..	1938	121	Switzerland ..	1939	43
Spain .....	1938	119	Norway .....	1937	42
Salvador .....	1938	117	Sweden ..	1939	39
Japan .....	1938	114	Netherlands ..	1940	39
Puerto Rico .....	1939	112	Australia ....	1939	38

### WORLD WAR I AND ITS DESTRUCTION OF POPULATION

Long-run tendencies toward a declining rate of population growth, leading to a stabilized or even declining population, were apparently accentuated by World War I. In order to show the impact of World War I upon population growth, and to place World War II in proper perspective, analysis of the population aspect of that first great global conflict may be useful.<sup>14</sup> The evidence is in on World War I, while it is now being collected on World War II.

Historically, war seems to affect population growth in two ways, there being a destructive phase during conflict and a restorative phase after its cessation. Both of these phases were

apparent during World War I and its postwar period, the destructive phase being more marked and spectacular.

This destructive phase featured an enormous increase in the formerly decreasing death rate and a pronounced accentuation of the prevailing decline in the birth rate. The increased death rate was attributable not only to direct casualties but also to the ravages of disease, epidemics, famine, and economic disorganization.

Estimates vary markedly as to the number of deaths suffered by the armed forces of the involved powers, but all estimates confirm the catastrophic extent of these casualties. One of the many widely quoted estimates places the number of deaths at 6,534,000 men.<sup>15</sup> According to these calculations, some nations, notably Germany, Austria, Hungary, and France, lost nearly one out of every five men aged twenty to forty-five. Calculations as to the total deaths caused directly or indirectly by World War I range as high as 41,435,000.<sup>16</sup> This estimate places the number of deaths at 24,856,000 in Europe; 13,769,000 in Asia; 1,674,000 in America; 1,000,000 in Africa, and 136,000 in Oceania. This startling total includes deaths caused by direct casualties, famines, epidemics, and other catastrophes attributable in whole or in part to war. Civilian and military losses resulting from these latter causes were indeed enormous. Protracted malnutrition, overcrowding, and chaotic living conditions rendered masses vulnerable to famine and disease. Indeed, the enormous spread of epidemics after World War I appears to be a further demonstration of the intimate relationship between war and disease.

An authoritative League of Nations study, drawing on many sources from many nations, deals with the deficit in European population caused by World War I.<sup>17</sup> Totals include military losses, excess civilian deaths, and the deficit of births caused by the long mobilization, postponement of marriage and children, and loss of adult male life. The total deficit is listed as 22,397,000 for Europe exclusive of the Soviet

Union, or 7 per cent of the 1914 population. This included 6,578,000 military dead, 5,010,000 excess civilian deaths, and a 12,596,000 deficit of births, minus a 1,787,000 reduction of infant deaths which was a by-product of lower birth rates. The total deficit for the Soviet Union was 26,000,000, including 16,000,000 military and excessive civilian deaths, and a birth deficit of 10,000,000. One-third of this loss occurred during the war, two-thirds during the revolution.

Simultaneously, the war years witnessed a sharp decline in the previously stable marriage rate and a marked accentuation of the slump in the birth rate. At the outbreak of the war there was a sharp flurry of marriages and a notable rise in the birth rate. This phenomenon, later to be repeated early in World War II, proved to be ephemeral. With an increase in the tempo of the war, millions of men were mobilized and absent from their homes and marriages that might otherwise have been contracted were postponed or never occurred. The marriage rate slumped precipitously in belligerent and neutral nations alike.<sup>18</sup> The rate in France dropped from a level of around 8 per 1,000 in the 1851-1914 period to a minimum of 2.3 in 1915. Germany's record was not quite as unfavorable; the prewar average rate of about 8 per 1,000 from 1851 to 1913 fell to 4.1 in 1915 and 1916. The low point for Italy, 2.7 per 1,000, came in 1917. The marriage rates of England and the United States also declined, although not as sharply.

The protracted absence of mobilized men resulted not only in fewer marriages but also in fewer births in those families already established. Birth rates plummeted in nearly every nation directly or even indirectly involved, since even the neutrals were compelled to mobilize large forces. Birth rates fell to fractions of the rates prevailing in the 1911-1913 period. Using these earlier rates as 100 per cent, minimum birth rates during World War I were:<sup>19</sup> Bulgaria, 41.7 per cent; Hungary, 47.5 per cent; Germany, 49.5 per cent; Belgium, 49.8 per cent; France, 50.5 per cent; Italy, 56.7 per cent; Austria,

57.1 per cent; England and Wales, 73.1 per cent; and the United States, 88.8 per cent. It should also be noted that the timing as well as the extent of these declines varied notably from nation to nation. Obviously World War I caused a marked shortage of births during the war years.

*PARTIAL RESTORATION OF POPULATION  
AFTER WORLD WAR I*

As indicated previously, there was also a restorative phase following the close of the war. The death rate gradually declined in most nations, although postwar military campaigns, epidemics, famine, and widespread economic distress forestalled an immediate recovery to prewar low levels. In some nations the death rate did not decline perceptibly until several years after the close of the war.

The marriage rate increased sharply, of course, as soldiers returned. In France, the marriage rate rose precipitously from 5.5 per 1,000 in 1918 to 14 in the following year, and to a peak of 16 in 1920, which was about seven times the minimum rate recorded in 1915.<sup>20</sup> Similar though less extreme conditions occurred in Germany, Italy, the United Kingdom, and even the European neutral countries. The postwar rise in the United States marriage rate was much less spectacular, since presumably the short period of participation minimized the extent to which marriages were postponed.

Birth rates also rose markedly above wartime lows, but this postwar recovery was neither immediate nor to prewar levels. The birth rate in England had been 26.7 per 1,000 in the 1905-1909 period, but could rise after the war only to 21.3 during the 1920-1924 period.<sup>21</sup> In Germany, the rate reached 23.1 during the 1920-1924 period, but it did not recover to the prewar level of 32.3. In France, the rate was 20.1 in the 1905-1909 period, and returned to almost identical levels after the war, since the rate was 20.1 in the 1920-1924 period.

How much of this failure to attain prewar levels reflected an extension of the underlying decline and how much can be attributed to the disruptive effects of war is virtually impossible to ascertain.

One factor that made difficult the restoration of prewar marriage and birth rates was the decimation by the war of the young adult male population. Many millions of men who might have sired children were killed in World War I, leaving widows or unmarried women behind. After the war, the age composition among the men shifted upward and the sex ratio was disturbed. This change is indicated by the following short table:

Age Distribution per 1,000 of Persons Aged 15-70 <sup>22</sup>

Ages	Great Britain		Germany		France		United States		Sweden	
	1911	1921	1910	1919	1911	1921	1910	1920	1910	1920
Males.										
15-25	133	123	146	137	115	112	151	133	140	140
25-35	118	101	120	96	110	89	132	126	109	110
35-45	98	95	95	93	98	93	102	107	83	90
45-55	70	81	70	76	83	87	75	82	74	68
55-70	60	70	61	63	84	89	59	66	77	79
15-70	479	470	492	465	490	470	519	514	483	487
Females										
15-70	521	530	508	535	510	530	481	486	517	513

Note that the proportion of males between fifteen and thirty-five was drastically reduced in 1921, as contrasted with 1910 or 1911. This shift meant, of course, a corresponding increase in the proportion of men over thirty-five. Note also that this scar in the age group from fifteen to thirty-five was particularly notable in those nations which entered the war at a relatively early date and suffered very heavy losses. The contrast between Germany and neutral Sweden is enlightening in this regard.

The table also reveals significant changes in the proportion of males to the total population. In each belligerent nation the sex ratio tends to change toward a larger proportion of women. One of the principal facts in the historic make-up

of world populations has been a fairly constant sex ratio. While more men than women are conceived and born, this disparity is whittled down through life, as men have higher infant mortality rates and are more subject to accidents and occupational disease. The sex ratio was drastically disrupted, however, after World War I. Most of the casualties in that war were among men under thirty, either recently married or shortly ready to marry and establish homes. Thus, 72 per cent of German military deaths and approximately 55 per cent of French losses were of men under this age.<sup>23</sup> The deaths caused by disease, famine, and economic distress reached all ages and sexes, but even these were very heavy among young men.

While the postwar period witnessed a marked shortage of men in the marrying ages, the number of women aged 15-44 per 100 males aged 20-49 rose abruptly. The ratios for the various nations, with the census year in parentheses, follow: <sup>24</sup> Bulgaria, 142 (1923); Poland, 138 (1921); Yugoslavia, 133 (1921); Russia, 132 (1926); Hungary, 129 (1920); Austria, 124 (1920); United Kingdom, 123 (1921); Netherlands, 114 (1920) and Belgium, 110 (1920).<sup>\*</sup> As a result, a larger proportion of men than women contracted marriages after the war. Millions of women were forced into involuntary spinsterhood. There was also a marked increase in the proportion of marriages in which the groom was much older than the bride.

World War I experience has been stressed because of the relative completeness of statistics. World War II and its aftermath are sketched in Chapter 14, insofar as is possible when so few returns are in.

\* These statistics, while illustrative and the best available, are not without flaws. The age grouping for men is five years higher than for women, which is probably acceptable in industrial nations. In rural areas, however, age differences for marrying people are smaller than for urban areas. This discrepancy accounts in part for the high sex ratios of Bulgaria, Poland, and other predominantly rural nations. Continent-wide distortion of the sex ratio, however, is clearly revealed.



*ECONOMIC EFFECTS OF POPULATION TRENDS*

The population trends described in the foregoing pages have had an important influence upon the world economy. The character and scope of this influence, as well as its many repercussions, will be sketched in the remaining pages of this chapter.

As was indicated at the outset, population trends—in and of themselves—could not produce and have not produced the violent convulsions and the baffling maladjustments of this century. The diminishing rates of population growth in the Western nations and the sharp population differentials could have been offset or counterbalanced by expanding technology and fuller development of the world's resources. At most, an evolutionary, gradual change in the pattern of world trade, investment, and resources might have resulted. Actually, population trends constituted an aggravating factor that was combined with extreme nationalism and a host of other forces to hasten Twentieth Century economic, political, and social crises.

*POPULATION TRENDS AND A COMPLEMENTARY  
WORLD ECONOMY*

It seems certain that a slackening population growth has undermined and made very difficult the restoration of the pre-1914 world economy. During most of the Nineteenth Century and the early part of the Twentieth Century, rapid population growth in Europe was one of the primary impulses behind world trade. It has been claimed that population expansion was the mainspring of the old free-trade tradition in England,<sup>25</sup> and there is considerable validity in that contention. As numbers increased in Europe and America, the demand for food and raw materials increased. Technological improvement was not sufficient to meet these demands, and

either the exploitation of the less fertile lands on the home continent or the intensification of cultivation would have been costly and would have encountered diminishing returns. Hence it was necessary and profitable to develop and exploit the agricultural resources of newly settled continents. Capital was invested in the United States, South America, and the various colonial empires, especially the British colonies and dominions. A thriving commerce grew up between these areas and Europe founded on a complementary basis. Europe imported food and raw materials from America and from the colonies, paying for these products with manufactured goods and the interest due on capital. Behind this whole arrangement was the constant increase of population in the industrial countries.

Obviously, when population increase began to slacken in these mature countries, the pre-1914 economy was considerably shaken. The demand for food is largely dependent upon numbers, for after a moderate scale of living has been attained, the demand may shift but it does not increase drastically. With stabilized or declining populations, demand for food and many raw materials has leveled off. At the same time, new agricultural technologies have vastly increased agricultural production in many basically industrial nations. While this change does not mean that international trade is no longer of importance, it probably does indicate that the bulk of world trade may no longer assume such a predominately complementary character. This expectation appears to be inevitable, despite the fact that many observers regard such a change with considerable apprehension.<sup>26</sup>

### *SHIFT IN COMPOSITION OF WORLD TRADE*

It is probable that a different type of goods is beginning to dominate national trade. Alvin Hansen asserts: "Now the rate of population growth must necessarily play an important role

in determining the character of the output. In other words, it will influence the composition of the flow of final goods.”<sup>27</sup> This factor, of course, may be accentuated or negated by such other developments as the industrialization of colonial areas, the reconstruction of war-ravaged areas, and the appearance of a “mixed” world economy.

As has been noted, world trade on the pre-1914 basis consisted largely of an exchange of foodstuffs and raw materials for finished or semifinished goods. This generalization does not attempt to minimize the substantial trade between industrial nations that existed before and after World War I. Now, what goods are of growing importance in the imports of nations characterized by slackening population growth?

It is likely that, after post-World War II famines and hunger have been alleviated or eliminated, there will be less demand for such primary products as wheat. This falling-off will disturb those areas, typically the British Dominions or Argentina, that produce vast quantities of these primary products. The Australian or Canadian wheat grower may be justified in his long-run apprehension, for although it is quite possible that income per capita will rise in these mature nations, this rise cannot counteract the slackening of their population growth. It has been asserted that a 1 per cent increase of population in the industrial nations would be of more benefit to the Australian wheat grower than any feasible rise of the income per capita in these states—especially since people’s bread consumption may fall as they can afford to buy more expensive food. In place of these primary products, fruit, eggs, butter, and other semiluxury foods are apt to be imported in larger quantities. A rising scale of living will aid the producers of this latter type of goods more than would a mere increase in numbers of consumers.

There will also continue to be an increase in demand for novelties, highly specialized manufactures, and semiluxury and luxury goods of all types.<sup>28</sup> While consumption of primary

products is largely a function of numbers, demand for these other products is primarily a function of income per capita and of income distribution. Nations heretofore industrially undeveloped are beginning to industrialize, and industrialization everywhere is apt to be accentuated.

The implicit assumption underlying the foregoing analysis is that incomes per capita will probably increase somewhat with a slackening population growth.<sup>29</sup> This assumption in turn is based upon several other assumptions, notably: (1) that these industrial nations are no longer characterized by increasing returns; (2) that concentration of wealth in these countries becomes no more marked than it is at present; and (3) that adequate measures are taken to at least minimize structural unemployment.

Only one conclusion can safely be drawn as to the character of the goods exported from these nations characterized by stabilized or declining populations: exports will continue to consist of semifabricated and fabricated goods, probably produced by industries characterized by heavy fixed costs. The logic behind this conclusion is that inasmuch as population in some nations (such as Japan and Russia) is still growing, the other nations must somehow compete successfully with these nations having an abundant labor supply. Since labor will presumably be a scarce factor in these countries with a slackening population growth, the only way to compete will be to utilize machine technology and capital to the utmost. Again, this reasoning is based upon at least two assumptions: that unemployment will not be so widespread as to drastically depress wage rates; and that population does not decline so drastically as to disorganize economic life and thus diminish the productivity of labor.

Incidentally, there is another reason for believing that the type of goods entering into international trade will be further altered. It is obvious that the changing age composition in the maturing nations will influence the types of goods consumed.

The obvious example: fewer tricycles and more wheel chairs. But to be less extreme, it is apparent that as fewer children are born, less income need be devoted to rearing them and giving them an education. This reduction will release funds for other purposes. Also, older people demand a different type of recreation than younger people, perhaps different housing, and different goods of other kinds.

### *ALTERED CHANNELING OF WORLD TRADE*

International trade may also be channeled somewhat differently than in the past. If different products are imported because of these population trends, it is probable that different countries will produce them. Present trade distribution could be maintained only if the former producers of such primary goods as wheat were to acquire equal prominence in the export of semiluxury or luxury products. This transformation is extremely unlikely although it may be possible.

In any event, the fact that the population is not reproducing at an equal rate in all countries is apt to force a shift in production and a rechanneling of trade. Relative abundance of land, labor, and capital will be altered in nearly every country, but presumably will be altered in different degree. Hence existing factors will be combined in different proportions in the production of a given commodity, or different commodities will be produced, or both. Under the principle of comparative advantage, countries will shift production and the shifts will force changes in world trade.

Also of note is the fact that sources of demand may continue to be altered. Population increases in Russia and Japan, for instance, have opened up a potential demand for certain types of products. It is well to remember, however, that these two nations are rapidly industrializing and may not need to import all the products which the masses demand. In England, in the United States, and in other countries where population

growth is slackening, there will not be a comparable increase in numbers but the income per capita will shift. While England might conceivably be able to maintain the absolute volume of imports, these imports may be of a very different type, and would presumably encourage production in countries well fitted to produce these new commodities.

### *WORLD DEPRESSIONS*

Population trends have made business depressions in a persistently nationalistic world no easier to solve. Indeed, world trade may become increasingly vulnerable to world depression and cyclical disturbances, especially in view of the growth of extreme nationalism. The spread of world cyclical upheavals has been facilitated by lack of world economic and political organization, coupled with a world trade that features competitive relationships, heavily capitalized export industries, and trade in novelties and luxury goods characterized by elastic demand. Hence, world trade will probably be prey to just such catastrophic slumps as the one that started in 1929-1930. As will be observed shortly, these world slumps may be accentuated by stringent nationalistic trade restrictions of many varieties.

### *IMPETUS TO TRADE RESTRICTIONS*

Declining rates of population growth have also facilitated trade barriers and arbitrary restrictions among nations. This prospect is not encouraging, but there is much evidence to indicate that population factors have accentuated restrictions imposed upon international trade. Assuredly, as domestic agricultural capacity has continued to develop, tariff barriers against the importation of foreign foodstuffs have been increased.<sup>30</sup> There is reason to believe that restrictions against luxury and semiluxury goods will also be created. As has been

observed, international trade in such commodities is apt to be erratic and subject to violent fluctuation. Accordingly, the first type of import that can be curtailed through trade barriers is luxury goods. Especially since 1930, many systems of exchange control, quotas, and tariffs have discriminated against goods of this type. In an emergency, these are the goods which can be dispensed with most easily. While there is a strong incentive to continue to import wheat, even during depressions, there is not an equally impelling urge to import luxuries. Furthermore, during depressions there will be a tendency on the part of the heavily capitalized export industries to dump cheap goods abroad, a maneuver which is apt to lead in turn to widespread retaliatory action. The effect of a general raising of trade barriers upon a highly specialized and precarious international trade can readily be imagined.

### *NECESSITY OF FOREIGN INVESTMENT*

A declining rate of population growth in the older industrial countries has partially undermined the historic tendency for domestic investment outlets to expand. Hence, foreign investment has been impelled in part by the necessity of avoiding hoarding and unemployment.<sup>81</sup>

Hansen has claimed: "It is therefore not unlikely that a shift from a rapidly growing population to a stationary or declining one may so alter the composition of the final flow of consumption goods that the ratio of capital to output as a whole will tend to decline."<sup>82</sup>

Presumably this decline in the ratio would be caused by a lessening demand for housing and by the increasing demand for personal services. This tendency toward diminishing domestic opportunities for investment could be checked only by an enormous advance in technology. As to the extent to which this ratio of capital to output may decline, Hansen concludes: "The approaching cessation of population growth

## *IMPACT OF BASIC POPULATION TRENDS* 81

and the disappearance of new territories for settlement and exploitation may cut off a half or more of the investment outlets which we were wont to make in the past.”<sup>83</sup>

Henderson also believes that capital requirements will be a smaller part of the national income, since large sums will no longer be needed in housing, factories, or the like. He asserts that “when numbers cease to grow, the need for a steady increase of productive capacity is neither so great nor so general.”<sup>84</sup> Reddaway, who has written perhaps the most penetrating of all the studies of the economic repercussions of a declining population, also concludes that capital outlay is apt to decrease rather notably.<sup>85</sup>

There are a few dissenters, however. Joseph Spengler asserts: “A decline in population will not be nearly so conducive to economic disinvestment and disequilibrium as many writers have supposed. In general, whether or not a decline in numbers will check investment and thus depress the level of employment turns largely upon the degree to which other determinants of the level of employment are allowed to act as depressants.”<sup>86</sup>

Granting the partial validity of this objection, it still appears that the effect of this single factor, slackening of population growth, is apt to lessen internal opportunities for profitable investment. It is quite true, of course, that other factors might conceivably counteract this development. It is also true that a rising scale of living might provide new investment opportunities. When the rate of population growth was rising, however, outlets were provided both through a rapidly rising scale of living and through an increasing population.

## *HAZARDS IN FOREIGN INVESTMENT*

In view of the enormous capacity of the capitalist system to generate capital, this dwindling of domestic outlets will intensify the urge to find foreign investment opportunities.



Can foreign investment take up the slack? There are many factors to consider, but most of them seem to indicate a negative answer. As long as social lag, integral nationalism, and international population trends are allowed to interact, the result is likely to be an environment not conducive to safe and profitable world outlets for capital.

As has been demonstrated in an earlier portion of the chapter, it is scarcely likely that capital can be employed to exploit the agricultural resources of new areas. Much of this exploitation has already taken place, and even if it had not, repayment of such capital loans through imports from the new area would be blocked by a diminished demand for primary products and presumably also by trade restrictions.

Could capital be employed abroad to build up foreign industrial development? Possibly, but this employment would be hazardous. Not only would such capital be employed in a field replete with risks and uncertainty, but it would also be confronted with the prospect of trade barriers in the home country and elsewhere. It is conceivable that if trade barriers should drastically restrict world trade, capital could be employed to build factories and industries within foreign countries and catering largely to domestic demand within these nations. But in this case, how could profits or the return on the investment be transferred to the investing country?

The striving of nations for investment outlets abroad may actually be conducive to continued friction and imperialistic surges. As the phenomenal power of the capitalist system to augment the capital supply is continually thwarted by dwindling domestic investment outlets, this striving will become increasingly intense, and in turn is apt to lead to trade restrictions—notably tariffs, exchange control, and other arbitrary barriers—unless some wider form of organization exerts control. This growth of trade barriers is a further reason for believing that strife and imperialism may be accentuated if nationalism is allowed to run perpetually amok.

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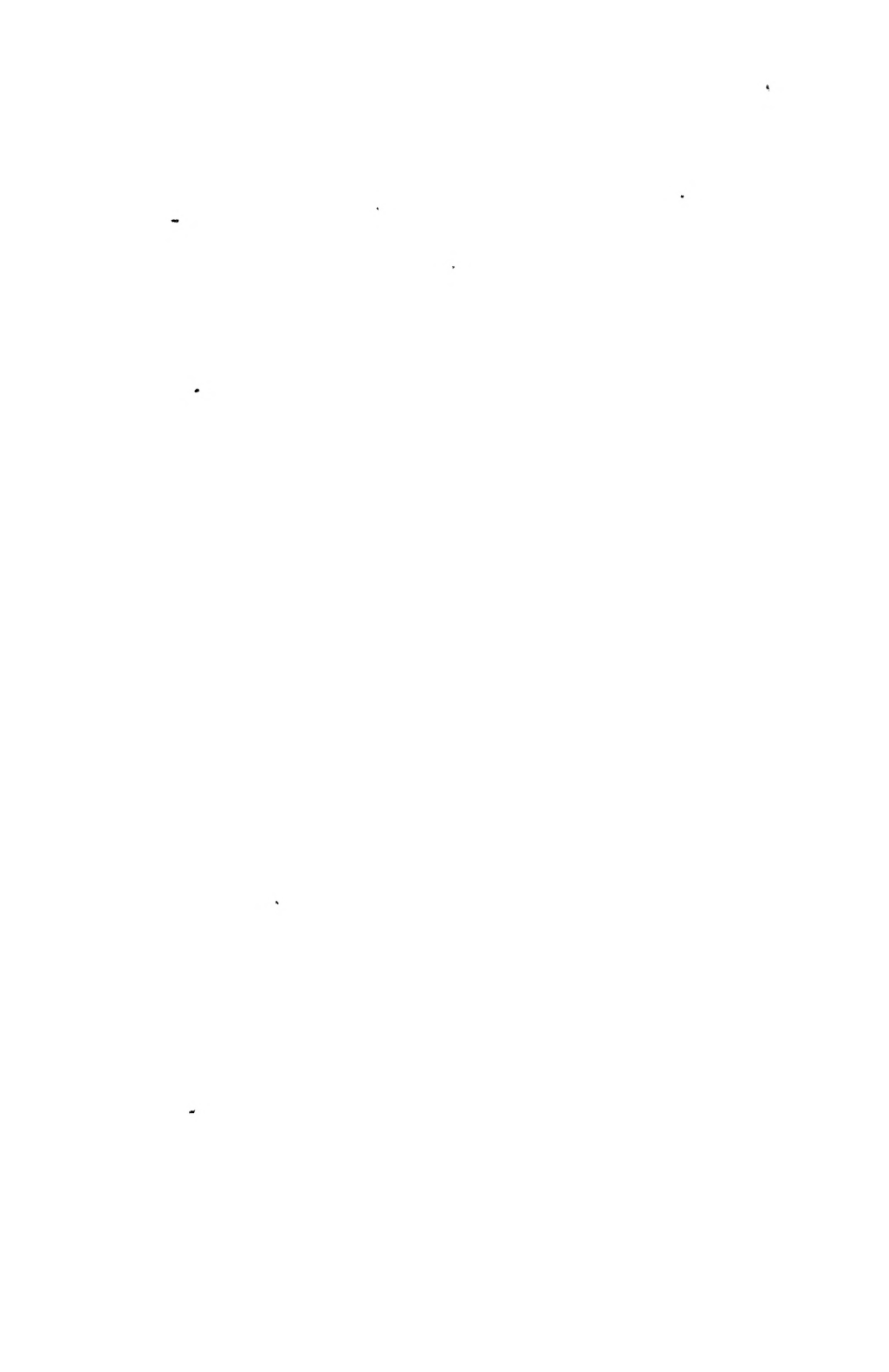
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## PART TWO

### The Impasse

*C*ULTURAL LAG and extreme nationalism have largely perverted technology, facilitated world-wide friction and war, and rendered doubly difficult the necessary adjustment to population trends and economic fluctuations. As a result, the Twentieth Century has been plagued by a fundamental and devastating impasse. Institutions, thought, and mores have remained localized, while the technical basis for a global economy and a world-oriented society has been laid. This impasse has taken violent form, as in World Wars I and II. It has also manifested itself in profound economic and social maladjustments. This section deals with the development and impact of some of the fundamental economic dislocations. Trade breakdown, maldistribution of raw materials, cartels, unemployment, and population pressure are treated as tangible economic symptoms of a world-wide disease already in a desperate and advanced stage.



## CHAPTER 4

# BREAKDOWN OF INTERNATIONAL TRADE

LARGELY as an outgrowth of the social, political, economic, and demographic disruptions analyzed in preceding chapters, world trade during the past half century has been distorted and curtailed. It has become an instrument of national policy and economic warfare, rather than a means of moving goods from where they can be produced cheaply to where they are needed.

### *CHANGING PATTERNS*

With the coming of the Industrial Revolution, new frontiers were opened for the expansion of flourishing international commerce. Methods of production were no longer uniform in various parts of the world, an expansion of world trade was invited by the opportunities for gain in the exchange of products between nations with divergent abilities to produce. Nations which mastered the techniques of machine production needed raw materials from countries whose resources or political subordination denied them, for the time being, an adaptation to the newly discovered ways of producing by machine. The exchange of industrial commodities for raw materials seemed to present a permanent pattern for expanding trade, at least until colonial areas could industrialize and a new division of labor could be arranged.

The productivity of the Industrial Revolution was reflected in an ever-widening area of international trade during much of the Nineteenth Century. International economic coopera-

tion through the production and exchange of goods and services was more or less taken for granted. In a general way it is correct to say that world trade on a multilateral basis was accepted as the common mode of economic life. Goods increased in number and variety and through the process of exchange came to influence the scales and standards of living of all peoples except those isolated, dominated by feudalism, or relegated to purely colonial status. The spread of transportation and communication facilities and the development of science and technology aided in the widespread acceptance of international trade as a means of increasing economic well-being.

Late in the Nineteenth Century, however, this smoothly functioning trade mechanism began to falter and creak. The abnormal industrial and economic dominance of England was waning, thus destroying one bulwark of the former complementary system. More fundamentally, modern technology was beginning to be throttled by social lag, by extreme political and economic nationalism, and by declining as well as differential rates of population growth. Twentieth Century trade breakdown has been one striking result.

World War I also did much to shatter the Nineteenth Century pattern of trade, although, as will be pointed out, international friction and conflict were making inroads on the pattern prior to 1914. The attempt at reestablishing this multilateral type of international economic relations in the postwar era was not successful, and ensuing depressions together with World War II and its chaotic aftermath have further distorted international trade. What was once accepted as a way of economic life, a means of distributing goods, has become a lever by which some nations seek to build power for themselves regardless of the repercussions upon the world community. The pattern of economic cooperation upon which a flourishing and expanding commerce was built has been forced to yield to the pressures of a skeptical, war-ravaged

world in which nations seek to restrict commercial intercourse in the interest of their own ideas of national security. The machinery of international trade has been shackled with restrictions which subordinate considerations of international division of labor.

Despite the breakdown of the former pattern of international trade, however, technological developments push toward a continued interdependence of world economic activity. Modern methods of production and communication have in reality brought the nations of the world closer together. Materials to construct the products which flow from man's inventive genius come from more and more points on the earth's surface. The existence of surpluses of food products in some areas of the world while millions of people starve elsewhere is convincing proof that resources are not being used efficiently. Resources of the world are not distributed evenly and their most efficient use in terms of the world's economic progress makes a system of wider international exchange indispensable. This requirement does not necessarily mean, indeed it cannot mean, a return to the pattern of trade prevailing in the Nineteenth Century. Yet, low scales of living and widespread hunger necessitate at least a modification of the trading system which came to prevail in the decade preceding World War II and which threatens to reappear now. An inquiry into the operation of the former trading system and the developments which led to its disintegration is necessary as foundation for consideration of the future role of international economic relations.

### *THE PATTERN OF INTERNATIONAL TRADE FOLLOWING THE INDUSTRIAL REVOLUTION*

As has been pointed out, international trade following the Industrial Revolution moved in a dynamic economic environment. As men discovered new techniques of production, speed



and change became characteristic of business enterprise, and expansion became the watchword of nations seeking to increase their economic wealth. During decade after decade, increasing populations consumed the product of man's newly discovered partner—the machine. A pattern of *complementary* trade between raw-material countries and factory nations worked itself out to general satisfaction, of the latter at least. So-called backward countries could not fabricate and sell their raw materials at home, so their exports entered the channels of world trade. Advanced countries were also depending on expanding overseas markets for their exports.

This increasing volume of trade also facilitated an increase in international movement of capital. Opportunity for increased production in outlying areas was sufficient attraction for accumulated capital to move to distant lands. Some countries' early mastery of industrial techniques placed them in strategic economic positions, with accumulated capital from profitable production, and the important trading countries became the world's leading lenders. The classic example of this trading-lending cycle of the Nineteenth Century was England, and the existence of a multilateral money market centered in London was one of the outstanding characteristics of expanding world trade. Foreign capital was often regarded by its receivers as a key to further economic progress, although its influx was long resisted by China and Japan, and its imperialistic connotations caused resentment.

Emphasis should also be given in this description of the former world trading system to the harmony of policy which prevailed in respect to international economic relations. Nations participating in this expansion of trade and improvement in scales of living were, in general, in agreement on the gains or at least the necessity of world trade. Questions were raised, of course, concerning terms of trade, fair competition, rates of interest for borrowed capital, and other factors associated with commercial practices, but on the whole most nations

were willing to maintain the system as it operated. That is to say, nations concerned with their own economic welfare regarded external economic relations as contributing factors to internal development. Jealousy, rivalry, and suspicion were not unknown, but nevertheless economic activity which transcended political boundaries was considered a natural phenomenon of economic life.

Such, in broad outline, was the system of world trade developed in that era dominated by so-called Nineteenth Century economic liberalism. The world had become a rather well-knit, integrated economic organization, based largely upon the industrial countries of northwestern Europe and with London as the dominant commercial and financial center. World economic forces were based on international division of labor, and the trade among nations was a direct consequence of the uneven distribution of technology as well as of natural and human resources.<sup>1</sup>

Underlying the trading machinery outlined above was acceptance and belief in the philosophy of *laissez faire*. While there was occasional and sporadic government action in respect to international economic relations, such action was not yet motivated by any conviction of inherent weakness in the system just described. The role of government in international trade was an attempt to remedy abuses in the system—the system as such was accepted as a more or less permanent model of international conduct. In participating in such a system, the maintenance of defense, the enforcement of contracts, and the establishment and maintenance of stable currency were the specific tasks of the state.

It should be emphasized in this connection that the doctrine of *laissez faire*, which dominated economic thought of the Nineteenth Century, considered the state and political system as somewhat separate and distinct from the economic system. Economic activity was considered to be the function of private enterprise, not to be interfered with or handicapped by

the limited activities to be carried on by the state.<sup>2</sup> Theories concerning international economic affairs were in essence merely extensions of reasoning about other economic activities. Private ownership and enterprise were taken for granted, and international trade was assumed to be the province of individuals motivated by the desire for profit. Competition and the movement of prices were to dictate the character and direction of commerce among the nations of the world.<sup>3</sup>

One of the consequences of cooperating in an international trading mechanism within the framework of *laissez faire* should be emphasized at this point. Acceptance of the benefits of expanding world trade as directed by the uncontrolled forces of the market carried with it an obligation upon each nation to accept and tolerate, in its own internal economy, the adjustments made necessary by its participation in a world economy. If movements of prices or improvements in methods of production brought sufficient changes in cost to develop new sources of supply of international commodities, nations which formerly supplied such goods were assumed to accept such circumstances as the inevitable if painful result of a well-functioning world economy. Resistance to such change by means of export subsidy, protective tariff, or other restraining devices was considered to be distinctly in violation of the rules of the game.

This willingness to adjust to outside economic developments was assumed to exist also in the field of monetary policy. Each nation was assumed to accept the external value of its currency so determined by the relationship between imports and exports, based on movements in international prices. Flows of gold and nominally automatic effects of gold movements upon prices were relied upon to bring adjustments in the movements of exports and imports whenever one nation's position relative to others was unbalanced. Each nation, large or small, strong or weak, was assumed to be willing to accept the lot assigned to it.

*THE WEAKENING OF THE SYSTEM*

Expansion and growth, complementary trade, stable currencies under the gold standard, and a multilateral capital market directing the flow of foreign investments were assumed by many who observed its working to be permanent characteristics of a world economic order. As the years moved toward the opening of the Twentieth Century, however, a retreat began from that harmony of policy which formerly had found the trading nations of the world looking beyond their own borders for strengthening their economic structures. The widening channels of trade carried more than goods, services, and capital—they also carried knowledge and techniques to all corners of the globe. Industrial skills that had been developed in England and other countries of Europe spread, through commercial intercourse, to all parts of the world.

The spread of industrial techniques brought to many nations a vision of potential productive power of their own. The rising industries of newly industrialized countries sought the aid of their governments, through tariffs, for protection of home markets. The development of "backward" countries ultimately tended to create wider trade and new markets, but old commercial patterns were disrupted. The manufacturing monopoly of England was confronted with increasing competition both in the old world and in a growing America which was pushing out its frontiers. As indicated in a previous chapter, rates of population growth were not maintaining an upward trend.

Adjustments to increased productive capacity were becoming more difficult as economic life was becoming more complicated. The economic structures within the nations' borders were becoming increasingly vulnerable to disturbances of an outside world to which their own economic activity had become attuned. Technological developments and changes in

customary sources of supply of international commodities were severely testing the willingness of nations, industrial and colonial alike, to make the resultant adjustments in their internal economies.

The international trading system was, in a sense, under the impact of a by-product of expansion and diffusion of new productive techniques, which had in itself seemed in an earlier day to forecast continued growth in economic well being and acceptance of international economic cooperation. This by-product, which was making its influence felt in the closing decades of the Nineteenth Century, was an increasing tendency toward economic nationalism.<sup>4</sup> The willingness of nations to accept without restraint the economic lot assigned by the movement of world markets was weakening, first gradually and then abruptly. In short, nations began to turn their economic sights within their own borders, away from the outside world and toward "security."

### WORLD WAR I

Such was the setting of the world's economic stage when war broke upon the world in 1914. Such a catastrophe inevitably disrupted world trade and every phase of international economic life was disturbed. Trade was thrown into violent gyrations, the demands of Europe upon American markets causing exports from this country (particularly of agricultural products) to increase in spectacular fashion. The upheaval in international finance caused by the war was sufficient to reverse the positions of former creditor and debtor nations. The international price system was of necessity subjected to drastic fluctuations as goods moved in response to military needs rather than upon the basis of economic cost. The international gold standard, formerly relied upon as the balance wheel for restoring economic equilibrium, gave way to paper currencies and gold embargoes. The international trading

machinery of the past was completely broken. Under such conditions government participation in economic activities naturally came to supplant the dominance of private enterprise in international economic affairs. The conduct of war presented a laboratory for experimentation in the relationship between the state and economic life.

### *ATTEMPTS AT POSTWAR RECONSTRUCTION .*

The course of international trade since the close of World War I has been marked by a series of dislocations. In general, the attempts at reconstruction of world trade were directed toward partial restoration of the system which had prevailed prior to 1914. In all fairness it should be pointed out that in the decade from 1918 to 1928 some progress was made in that direction. The gold standard was nominally restored, war-time tariffs were somewhat modified, and capital movements were resumed.

The changes necessary to resume international relations after a struggle in which economic restrictions had become an accepted tool of national policy were, however, so great as to seem practically intolerable to many nations. The changes necessary in the relations between debtor and creditor nations, for example, were avoided by credit expansion and large international loans. The United States, transformed almost overnight from a debtor to a creditor nation, continued to seek large export surpluses, supported chiefly by loans, the proceeds of which were used for reconstruction. Agricultural production was restored in European countries without a corresponding decrease in competitive areas outside Europe. Restoration of industrial output was a goal of former warring nations at the same time that spreading industrial techniques were increasing manufactures elsewhere.<sup>5</sup> Great Britain, which had been the hub of an international financial market in the prewar years, was unable to assert economic leadership

on an international scale. Meanwhile the United States was apparently not willing to assume the responsibilities of a great creditor nation.

Mention must also be made at this point of the delicate problem of reparations and war debts, solution of which was clearly an international problem. Thus was added another formidable obstacle in the path of a world still uncertain about its ability to piece together an international economic pattern that could function. Other factors could be presented to give further evidence of the difficulties encountered in building an international trading system to fit the postwar world, but the brief summary above is sufficient for emphasis. It must be remembered also that war inevitably leaves in its wake strong nationalist emotions and attitudes of revenge, hate, fear, and insecurity. To endure the tortuous long-run processes of adjustment necessary to achieve international economic cooperation is indeed a supreme test.

### *DISINTEGRATION OF INTERNATIONAL TRADE*

In such circumstances one nation after another reached the conclusion that economic reconstruction upon the old pattern of the prewar era was not possible. Concern for world economic integration soon gave way to desire for internal economic security, as agricultural and industrial tariffs were gradually increased to aid in accelerating reconstruction. Industries developed during the war to reduce dependence upon outside sources of supply clamored for protection to avoid almost certain liquidation if subjected to international competition. Certain commodities formerly imported from abroad were regarded as key or strategic commodities in the event of future conflict and their production by domestic industry was encouraged. Great Britain, the classic free trading nation of the Nineteenth Century, reluctantly turned toward a policy of import restrictions. Markets for manufactured goods were

affected by difficulties in agricultural countries, and agricultural surpluses were seeking outlets in narrowing world markets.

Then followed the collapse of the credit expansion which had artificially bridged the gap between debtor and creditor nations up to 1929, and this collapse was followed by the onslaught of the great depression. The ensuing fall of export prices led to strenuous efforts toward increasing production and enlarging exports while cutting down on imports in order to discharge international financial obligations. Nations whose economies had become adjusted to production for foreign markets were faced with the problems of modifying their own internal economies. Falling prices, the disappearance of profits, closed factory doors, products which could not find customary foreign markets, and the specter of unemployment all combined to present an economic environment in which the discouragement of imports from abroad certainly seemed to be an expedient step. Under such circumstances, the reminder that the imports of one nation are the exports of another, that restriction of imports is a practice which cannot be generalized among all without further limiting the area of exchange, falls on deaf ears.

### *THE UNITED STATES TARIFF ACT OF 1930*

In an unbalanced world, international trade drifted toward chaos as the terrific impact of the depression further increased the trend toward economic self-sufficiency. Nations throughout the world resumed the upward trend of tariff protection, which had been temporarily halted by the recommendations of the World Economic Conference of 1927. The United States, which had been thrust into a position of leadership in international economic affairs as a result of World War I, added to the prevailing unbalance by the passage of the Hawley-Smoot Tariff Act of 1930.



Economic prosperity in the United States (a large exporter of both agricultural and manufactured products) was directly affected by the economic activity of both agricultural and industrial nations abroad. The restriction of international trade by this country (a creditor country and importer of raw materials) had profound effect upon economic conditions elsewhere in the world. The 1930 Tariff Act aided in accentuating the movement toward higher tariffs in other countries; rarely in the history of the United States has a piece of legislation brought such extended and violent reaction abroad as did the Tariff Act of 1930. Foreign reaction expressed itself in widespread retaliation and discrimination against American exports, and the action of the United States profoundly influenced the commercial policies of the principal trading nations of the world.<sup>6</sup> New and retaliatory tariff legislation followed quickly in Canada, France, the United Kingdom, and other countries, and by 1932 tariff increases had taken place in practically every country in the world. Changes in tariff schedules came with greater frequency, thereby adding to the general uncertainty of international trade. The commercial policy of the United States was not alone at fault in this rising spiral of tariff restrictions, but it is certain that the international economic course pursued by this great creditor nation, culminating in the highly protective Tariff Act of 1930, led to further economic distress and dislocation throughout the world.

Had the nominally prosperous era of 1925 to 1929 been extended, international economic cooperation might conceivably have been achieved through the tremendous adjustments necessary in the postwar world. The great depression, however, turned the tide, and trade barriers attained undreamed-of heights. Falling prices, unemployment, and the determination upon the part of each nation to put its own house in order proved to be pressures which were too strong for economic internationalism to withstand.

*BREAKDOWN OF THE INTERNATIONAL  
CAPITAL MARKET*

The intensification of trade restrictions just described exerted a terrific pressure upon international financial markets. Loans upon which debtor countries depended to aid in their economic reconstruction were cut down; short-term credits were withdrawn by nervous creditors who suddenly realized that borrowing nations were unable to repay in markets which were becoming more and more restricted; and long-term investors sought liquidation at sacrifice terms. Such action increased the strain on balances of payments and finally resulted in the complete breakdown of the international financial machinery, as was evidenced by the suspension of the gold standard by England in September, 1931.

The breakdown of the international capital market in 1931 was directly related to the growing restrictions upon international trade, and in turn was the cause of still more drastic trade restrictions following 1931. The collapse of the capital market, however, is to be viewed as something more than a mere disarrangement of financial transactions. It marked a climax of the chain of unsuccessful attempts to reestablish an integrated world economy which had functioned in the Nineteenth Century and the early years of the Twentieth.

The relatively free and orderly movement of capital had been closely integrated with the expansion of international trade in the trading system which was the economic reliance of the Nineteenth Century world. Countries in which capital was relatively abundant exported funds through the organized capital market to areas where capital was relatively scarce. The direction and distribution of credit available for new investment was determined largely on the basis of prospective returns. It was a generally accepted belief that the development of new areas (at least along extractive lines) by capital from the reservoir of available supplies would not only return

profits to lenders but would also contribute to increased production and trade; through utilization of capital, more efficient combinations of the factors of production could be found. Credit was available for a wide variety of uses at prices usually determined by competitive conditions, and both long- and short-term capital movements were on a world-wide scale. The ready acceptance and discount of bills of exchange gave a degree of certainty to international settlement, which greatly facilitated the movement of goods.

Underlying these multilateral capital markets, however, was a basic dependence upon the relatively free movement of the products of international commerce. Funds were collected in the money centers and distributed to all corners of the globe, but ultimately payments depended upon the production and sale of goods. Such capital markets were dominated by individuals seeking profits, but at the same time the relationship between the movement of capital and the movement of goods was an indirect one. That is to say, a borrowing country need not necessarily spend the proceeds of its loans in the country from which it borrowed, nor in a manner prescribed by the lender. It was assumed that a debtor country might eventually make repayment from proceeds arising out of sales to several other countries. Thus a credit extension originating in the money market at London might conceivably touch the production and trade of several countries in the process of repayment. The balance of a nation's financial transactions could be ultimately adjusted only by the movement of goods. It followed that the machinery of world trade operated in a continuous balancing of financial transactions made possible by a continuing flow of goods. The flow of goods, coming from more efficient combinations of resources, as a result of financial aid, contributed to the maintenance and increase of the capital reservoir. Thus, the result of a world-wide and often complicated series of transactions moving in and out of the international money markets was a distribution

of capital into outlying areas and a continuous expansion of international trade. The breakdown of the international financial apparatus in 1931 was tantamount to the removal of the mainspring of an integrated world economy. Just as natural resources must be distributed in the form of commodities to satisfy consumers, so must some type of machinery (private, governmental, or mixed) exist to aid in movements of capital from areas of relative abundance to points of relative scarcity.

### *INTENSIFICATION OF TRADE CONTROLS*

The economic chaos following in the path of the international financial crisis of 1931 turned the nations of the world with new urgency to foreign-trade controls. Methods of conducting trade were designed primarily to insulate the domestic price level from a declining world price level. Internal economic stability, wholly apart from external stability, became the desired goal, and systems of trade control far more rigid and complex than the world had yet witnessed became the order of the day. Direct methods of restricting imports, such as exchange controls and quotas, were emphasized in addition to tariffs and other conventional restrictions. Such controls as milling regulations that required the use of a certain proportion of domestically produced grains were introduced in countries desirous of developing agricultural production in order to decrease dependence upon other nations. Linked-purchase regulations required that each import be matched by a purchase of a certain amount of domestically produced commodities. Tariffs became more detailed in definition and classification, multicolumn or multischedule systems being common. Import quotas, export subsidies, and government import monopolies were established. Exchange controls which assigned fixed supplies of foreign exchange to importers (allotting exchange only for essential imports) and which compelled exporters to turn over exchange acquired by foreign

sales became common instruments of control. In such systems of exchange restriction, official prices at which foreign exchange could be bought and sold were established by government authority. Clearing and compensation agreements, as well as barter arrangements, were entered into in an effort to keep in balance the imports and exports between certain countries. Thus, restrictions upon international trade shifted emphasis from tariffs for the aid and protection of domestic industry to controls for the protection of balances of payments, the stability of currency, and the pursuance of programs of self-sufficiency and domestic full employment.

As international trade began to show some signs of recovery in the waning depression, these weapons of trade control were not completely eliminated but were converted into bargaining instruments.<sup>7</sup> The threat of still more intensive import restrictions, machinery for which was already in existence, was sufficient to bring many nations into new agreements. The terms of these pacts were often such that an importing nation virtually dictated to an exporting nation how, when, and where it could dispose of its products. Nations dependent upon exports of a relatively few commodities for a significant portion of their national economic activity, such as the Latin American countries, were particularly vulnerable to such techniques. Such agreements were in effect grants of concessions to the nation possessing strategic trading positions and the most threatening import restrictions.

Trade controls were also convenient bargaining instruments in dealing with countries to which payments for past claims were due. A creditor country faced with complete repudiation of its past loans was quite willing in uncertain world markets to enter into an agreement to accept specified commodities or services as partial payment. The continuance of such techniques and the rapidly declining hope for any co-operative relaxation of trade restrictions thus set the stage for a bilateral approach to world trade. This bilateralism was

in direct and complete opposition to the multilateral trading system that prevailed in the Nineteenth Century. Equalization of trading balances was taken from the quasi-automatic working of changes in the international price level and made the subject of governmental policy. Every adjustment in trade was to be reviewed and decided upon by the proper authority in terms of national interest. Exports and imports no longer were regarded as symbols of a developing world economy—they became specific movements in relation with specific countries and were viewed as instrumental in divorcing internal economic adjustments from external affairs. Trade movements responded not only to changes in prices but also increasingly to decisions of governments.

The significance of the above-mentioned trade controls and their use as bargaining instruments is to be found in the resultant shifting of modern international commercial policy toward the acceptance of bilateral trading methods controlled by government authority. As has been pointed out above, world economy, in the sense of an integrated cooperative organization, reached its greatest maturity in an environment of multilateral trading relations in which movements of prices largely directed and controlled trade. Exports and imports were influenced by fluctuations in world markets, and international balances were adjusted through free movements of gold. The bilateral methods of 1930-1939 call for a regimentation of trade and finance, the principle of equality of treatment in commercial intercourse having given way to the principle of special advantage.

Government control or regulation of foreign trade is not in itself to be regarded as a denial of the advantages of international division of labor. In fact, the forces of competition working through uncontrolled markets have never brought complete satisfaction of wants or completely optimum use of resources internationally, just as the same system seldom functioned perfectly within nations. Nevertheless, when gov-

ernment policy has proceeded upon the basis of discrimination against other nations, the result has usually been dwindling trade and economic warfare.

### *DISCRIMINATORY ASPECTS OF TRADE CONTROLS*

Most of the various trade controls mentioned above are by nature arbitrary and discriminatory. Import quotas, for example, are practically impossible of administration upon a nondiscriminatory basis. Unlike tariffs, import quotas are absolute prohibitions upon the movement of goods. Under tariff duties no restrictions are placed upon the physical quantities of imports permitted to enter a country. The only restriction is that those which enter must be taxed. When quantitative limitations are set under a quota, however, decisions must be made concerning the perplexing problems of the size of the quota, its allocation among the various supplying countries, and the basis upon which allocations should be made. All of these problems characterize this type of trade control, concerning which arbitrary decisions must be made by government authority. The use of such a device either as a bargaining instrument to force special treatment or as a means by which some nations may be discriminated against in favor of others is an obvious possibility.

A system of foreign-exchange control is another example of the manner in which trade controls may be used to distort the channels of international trade. Most systems of exchange control stipulate that import permits must be granted by government authority before exchange can be acquired for payment. This requirement facilitates discrimination, not only in respect to commodities imported but also among the supplying countries. The principle of "buy from those who buy from us" is easily operative under such a system. Systems of exchange control are complex and varied, and many of them

were adopted as defensive measures to protect the external value of national currencies. This purpose was particularly that of debtor nations whose gold reserves were not sufficient to withstand the pressure of external debt payments when commodity markets collapsed. Nevertheless, the foreign-exchange market, which developed originally as a mechanism to facilitate the settlement of international transactions, has come to be an instrument in the hands of government. This instrument allows the movement of goods, services, and capital to be directed in keeping with national aspirations. The willingness to accept fluctuations in rates of exchange as a cost of free flow of goods, services, and capital has generally given way to the determination to control exchange rates by official decree. Monetary nationalism has become an outgrowth of the breakdown of international markets.

Import quotas and exchange-control systems have been chosen only as examples of the influence of modern trade controls on normal trading operations. Milling regulations, clearing agreements, barter arrangements, complicated tariff schedules, exclusive bilateral agreements, and other restrictive devices present an equally striking picture of the regimentation of international economic affairs in the interest of the national state. In their recent form they result in decreasing the area in which the principles of specialization and exchange may operate. Adherence to these restrictive principles, both within a nation and in relationships among nations, has often resulted in precipitating or accentuating economic warfare.

### ***RECENT UNITED STATES COMMERCIAL POLICY***

The trend toward governmental control of exports and imports was resisted by some countries, notably by the United States in its Reciprocal Trade Agreement Program, enacted in 1934. This program, which is essentially one of bargaining to reduce tariffs throughout the world, is based on the prin-



ciple of equality of treatment. The United States, in negotiating trade agreements, extends the tariff concessions granted a signatory nation to all other countries not discriminating against American commerce. The agreements as signed are bilateral in form, but the automatic extension of privileges to other nations makes each pact multilateral in substance. This practice of extending advantages to countries other than the signatory is an illustration of unconditional most-favored-nation treatment. No specific conditions are set down as a price for the generalization of concessions other than the general provision that American commerce shall not be discriminated against. It should be noted that the Trade Agreements Program of the United States operates upon the principle of opening up the channels of world trade in which all nations may share rather than seeking special agreements which divert additional trade to this country by discriminating against others. As a matter of practical operation of the program, concessions are granted in the agreements which are of more importance to the signatory than to other nations, and concessions have often been narrow and specific. Other nations, however, are not made to feel the sting of open discriminations. This principle of equality of treatment is still one of the keystones of American commercial policy, despite a level of tariff rates that is admittedly still high, and stands in sharp contrast to the controlled bilateral balancing of trade characteristic of many recent commercial agreements.

### *EFFECT OF TRADE CONTROLS UPON INTERNATIONAL TRADE*

The result of a continuation of the various controls mentioned above is a profound readjustment in the structure of international trade. World specialization has already undergone a major operation. Industrial countries are subsidizing and protecting agricultural production in the interest of less-

ening their dependence upon others for food supplies, while countless thousands starve in food-producing countries because of inability to market and dispose of their products. Manufacturing plants are being constructed and industrial developments, sometimes of dubious economic prospects, are encouraged in countries producing raw materials. At the same time, the products of highly industrialized countries are often unable to find markets. Undoubtedly technological developments as applied to both agriculture and industry must inevitably create dislocations of this type, especially with the spread of nationalism. The carrying out of such programs by nations striving for the highest possible degree of self-containment, however, leads to a world-trade reorientation of revolutionary proportions. The continuation of such trends will bring about an allocation of productive factors in which production must be restricted in those countries best endowed with natural and human resources for specializing in the production of certain goods. More is involved than the mere breakdown of a former trading system and the consequent rearrangements of the factors of production. The concept of world-wide, cooperative, highly specialized economic enterprise in which all participate is being challenged, and with some success, by a system of production and trade in which international economic transactions are oriented either toward noneconomic ends or toward considerations of short-run economic security.

### *OPPORTUNITIES*

Despite the impact of these chaotic conditions prevailing in world trade, however, the challenge confronting a world economy is great. Scales of living throughout the world are still so low as to suggest that much more work remains to be done in increasing world economic welfare. The existence of vast undeveloped areas, where natural resources await com-

bination with capital and "know-how," does not warrant the conclusion that foreign investment can no longer find outlets in a world economy. Production of synthetics suggests fundamental changes in the character of trade among nations, but even substitute products require resources which are usually not domestically in abundance. The underlying problem in social economy, namely, the best method of using available resources, still brings the question of economic cost to the surface. Differences in climate and soil still exist to create variations in types of products capable of satisfying human wants, and in temperate zones, for example, the desire for the exotic products of tropical areas is still strong. World War II and the complicated problems of equitable rationing (or even abstinence from consumption) of customary imports emphasized the nature of man's wants for the products of distant lands. Continued technological development brings materials from specialized areas of production in all parts of the world.

Peoples may be willing, of course, to give up the fruits of continued material development as brought by modern science and industry and seek political isolation, military security, and economic self-sufficiency. Careful consideration of the ultimate implications of such a course, however, raises the question as to whether these other goals can actually be attained and held at the cost of lower scales of living throughout the world. Against the possibility that economic forces may be thus permanently checked is the unceasing drive of the world's peoples to attain more goods and an economic security that will not be self-defeating.

### *TURN BACK THE ECONOMIC CLOCK?*

Acceptance of this analysis does not mean that international trade of the future will be, or should be, patterned on the system of the Nineteenth Century. The prime task of the

Nineteenth Century was one of building up productive capacity through the development of resources and human skills. Work of this type still remains to be accomplished in vast and populous areas, but the compulsive task of this century is to bring about greater economic security as well as stable relations among the nations of the earth.<sup>8</sup> The accomplishment of this function necessitates a system of international trade but one whose machinery and directive force differ from those of the past. The collapse of the former mechanism suggests that its development failed to bring to many nations the benefits which were assumed to be almost automatic.

The former system of international trade working through competition and the pricing mechanism brought with it an element of uncertainty.<sup>9</sup> Most nations living in constant fear of unemployment desire to have reasonably stable markets for their exports as a means of stabilizing their domestic employment. Yet in the traditional practice of international trade the markets for exports were uncertain, and they became particularly so in periods of depression. World-wide markets seemed to offer more stability than narrower domestic markets; but business cycles in foreign lands, changes in sources of supply, the fear of trade restrictions, political upheavals, monetary policy, and other variable factors brought great fluctuations in export trade.

Such fluctuations were assumed to be part of the price of participating in a world economic order, but to many nations their constant occurrence was a source of great domestic economic strain. The ability of some nations to alter the direction of production was much greater than that of others, and the less versatile nations found the consequent irregularity in the use of resources a terrific strain. As their export markets fluctuated without control or conscious guidance, their ability to import also fluctuated; and to many nations gain from international trade was canceled by unemployment and instability. When employment was threatened because of declining ex-

port markets, attempts were made to create employment by restricting imports in order to encourage domestic production. Goods thus produced at home might cost more than the same goods obtained from abroad, but employment at noneconomic terms was preferred to unemployment. Creation of employment at home by reducing purchases abroad results, however, in merely shifting the problem elsewhere, with a long-run contraction in trade and employment throughout the world.

International competition, as it prevailed in the former system of world trade, brought vastly different results to various participating nations. It was assumed in general that the full force of competition would act as a stimulant to the improvement of productive techniques and distribute the resultant advantages among the competing countries. But in practice, the changes in techniques struck the economies of the various nations of the world with different force. Technological developments came with great speed and intensity, and some countries found the strain of rapid adjustment too great. The natural defense against such adjustments seemed to be a resort to some form of restriction which would at least temporarily forestall the rigorous competition that made such adjustments necessary. Such attempts to postpone or halt rearrangement of internal economic organization in keeping with the speed of world-wide developments often caused disturbance elsewhere in the international economy.

Still another aspect of the former trading mechanism which was not satisfactory to many nations was the marked difference in the terms at which international goods exchanged. All nations probably realized some benefit from the exchange, although measurement of degrees of gain is difficult. But some nations, especially those economically or politically weak, paid out a high price in terms of human effort to acquire sufficient purchasing power from their exports to buy the products of other countries. When declining markets or depression

made the economic position of such nations still worse, relative to that of other trading nations, they sought methods of improving their positions by special deals of an exclusive type. A weak nation in such a situation is easily coerced into agreements proposed by economically stronger countries employing threats of intensified economic warfare. Such inability of a nation to maintain its economic independence has often been exploited as a justification for political or military intervention by stronger powers.

Other specific deficiencies of the former trading system can be elaborated. Chronic uncertainty and instability, coercive competition, and domestic unemployment were but a few of the sources of friction and uneasiness which undermined the prevailing system. Classical economic thought, flourishing in the Nineteenth Century, held that such fluctuations were to be expected and endured, and that somehow from them would come adjustment. Experience in the Twentieth Century has revealed an unwillingness upon the part of many nations to be consoled by the theory that what was good for some must of necessity be advantageous for all. A nation whose economic system has realized full employment has an attitude toward rigorous international competition entirely different from that of one whose society is disorganized as a result of unemployed human resources. The doctrine of international trade which prevailed in the expanding economic environment of the Nineteenth Century assumed that countries would achieve and, with the exception of brief periods of disturbance, maintain full employment. Instead, all countries endured the ravages of depression and unemployment from time to time, and even in periods of relative prosperity some uncertainty as to future developments was always present. This uncertainty as to future fluctuations has led peoples and governments throughout the world to abandon reliance on the efficacy of change and adjustment, through which the factors of production will

ind their best use.<sup>10</sup> Under such circumstances the allocation of production as dictated by conditions of competition is often modified or supplanted by government action.

In the field of international trade, such action has moved toward the extreme of economic nationalism and self-containment. It is now certain that the imperfect way in which economic systems have operated in the past, both internally and externally, makes impossible if not undesirable any return to the complementary colonial international trading system of the pre-1914 era. It is equally certain that a continuation of self-centered economic nationalism and predatory economic warfare of the 1930-1940 decade is not a solution to the universally recognized problem that besets mankind—the problem of organizing the vast natural and human resources of the world in such a manner as to maintain security and employment in individual nations and also to contribute to a peaceful and orderly world. International economic cooperation did not complete its full cycle of usefulness with the breakdown of the Nineteenth Century pattern of world trade; it merely awaits modification in the light of past failures.

#### WORKS CITED IN CHAPTER 4

1. See Alvin Hansen, "Report of the Director of Research," *International Economic Relations*, p. 103.
2. E. H. Carr, *The Twenty Years Crisis, 1919-1939*, p. 146.
3. See Herbert Feis, *The Changing Pattern of International Economic Affairs*, pp. 1-25, for a description of the former system of international economic relations.
4. Hansen, *op. cit.*, p. 104.
5. See J. B. Condliffe, *The Reconstruction of World Trade*, pp. 9-143.
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7. Margaret S. Gordon, *Barriers to World Trade, A Study of Recent Commercial Policy*, pp. 3-6.

8. See Alvin Hansen and C. P. Kindleberger, "The Economic Tasks of the Post War World," *Foreign Affairs*, 20:466-476, April, 1942.

9. See Herbert Feis, "Restoring Trade After the War," *Foreign Affairs*, 20:285-287, January, 1942, for the basis of the following discussion on deficiencies of the former system.

10. Herbert Feis, *The Changing Pattern of International Economic Affairs*, p. 38.



## CHAPTER 5

# DISTORTION OF WORLD TRADE IN MINERALS

THE Twentieth Century collapse and distortion of international trade has been nowhere more evident than in the raw-material sphere. Most of the great industrial concentrations of the post-1750 period have been facilitated by the ready movement of raw materials from remote, outlying areas. Not only the basic industrial structures but also the scales of living of these more mature areas have depended upon such imports. Likewise, the colonial areas (in the economic sense) came to finance their heavy imports of manufactures and semimanufactures from the proceeds of raw-material exports. A far-flung sea and land transport network also depended in part upon such an exchange.

In large part as a result of social lag, violent nationalism, and dwindling population growth, this world-wide complementary trade was distorted and restricted. Being vulnerable to such economic convulsions, satellite areas producing raw materials resorted to intense nationalism and further impediments as a defense mechanism.

*Thus, while tariff barriers were being rapidly raised by industrial countries against imports from rival industrial powers, an equally damaging bottleneck began to take shape on the raw-material level. As will be reiterated in this and the following chapter, restrictions on raw-material movement assumed many forms. Supplementing direct controls, such as import and export duties, quotas, exchange control, embargoes, and cartelization, were more subtle attempts to reduce or*

distort trade through substitution and through development of *ersatz* products.

In this chapter, the scope and effect of a few of these controls in the mineral sphere will be reviewed on a case-study basis. In the following chapter, a few of the controls and distortions characteristic of trade in other industrial raw materials and foods will be sketched. These chapters may be said to provide an extended documentation and specific application of Chapter 4.

### VITAL ROLE OF MINERALS

In no phase of our economic life is the interdependence of distant areas more pronounced than in the realm of minerals. Every modern nation is dependent to some extent upon foreign sources for the materials with which to build its machines or for the fuels with which to operate them and to maintain its war potential. Minerals occupy a key position in the modern world economy, and any plan for economic and political organization must take cognizance of their essential and symbolic role in modern industrial civilization.

From the battle of Waterloo to the battle of the Marne was an even century. In that 100 years, the western peoples increased population threefold, but use of the metals and of mineral fuels increased seventy-five to a hundredfold.<sup>1</sup> Throughout that period, the world's requirements were increasing like a sum at compound interest. The over-all rate of growth slackened between World War I and World War II, and then increased in incredible fashion. This spectacular increase in mineral output has long been the bulwark of world industrialization. The role of steel, magnesium, aluminum, mercury, and other minerals in modern mechanized war, specifically in World War II, is too familiar and well publicized to require elaboration.

*PETROLEUM AS A CASE STUDY*

One of the more important minerals is petroleum. Although it is but one of many vital mineral products whose postwar production and allocation must ultimately be analyzed, study of the restriction and distortion of trade in petroleum should reveal some of the factors operative in the mineral sphere generally. Such an analysis is designed in part to devise a fruitful approach to the production and distribution of all basic materials, though few raw-material industries are truly "typical." Minerals diverge markedly as to localization, depletion, substitutability, consumption patterns, world trade, and impediments to trade. Yet utilizing a single, pivotal mineral industry as an initial point of departure will not prevent these divergencies from ultimately being taken into account. The petroleum industry has been selected for this initial analysis because of several significant reasons.

First, petroleum is intimately associated with our urbanized, industrialized civilization. The enormous growth of this industry during the Twentieth Century has been largely attributable to the dominance of this civilization, and the industry's future course will be markedly influenced by the continuance or modification of machine-age culture. In short, petroleum lies near the very center of our present mode of life, rather than near the edges.

Second, petroleum is a peculiarly strategic and sought-after product. Crude oil and gasoline seem to be needed both to maintain a lofty scale of living and to successfully prosecute a modern war.

Third, the petroleum industry is facing severe current and potential competition from synthetics. This struggle involves certain political, economic, and technological variables that merit analysis.

Fourth, petroleum has involved international trade and investment on a very large scale, since only the United States

and the Soviet Union are both leading producers and leading consumers, and only the United States is both a leading importer and a leading exporter. Hence the industry is particularly sensitive to any international arrangements that may exist during this postwar era. Thus, if world trade in petroleum has been impeded or distorted by nationalistic trade barriers and self-sufficiency programs, it is evident that mineral trade generally has been at least as vulnerable. Petroleum is a mineral badly needed by most nations. Its markets are growing rather than diminishing, as new uses are developed and industrialization spreads. With a clean-cut geographical separation of most major producers and consumers, international trade is a first essential. Under these circumstances, evidence concerning trade restrictions, arbitrary channeling of trade, and nationalistic regulation of production is doubly impressive. A case study of petroleum understates rather than exaggerates the degree to which trade in minerals generally has been affected.

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### *PETROLEUM IN WORLD TRADE*

Few minerals other than petroleum have moved internationally in such impressive fashion, as prewar statistics reveal. The existence of a world-wide tanker fleet in 1939 aggregating 1,731 tankers and 11,436,880 gross tons<sup>2</sup> indicates the mammoth scale of world trade in petroleum.

This trade has been impelled largely by a lack of coincidence between major consuming areas and producing areas. In only two cases are major producing areas located in nations that also consume vast quantities of oil. The United States was 107 per cent self-sufficient in petroleum in 1938, while the Soviet Union's self-sufficiency in that year was reputed to be 123 per cent.<sup>3</sup> Other ranking consumers, however, did not produce enough to meet their needs. The nations and their

1938 self-sufficiency ratios were: Japan, 10 per cent; Germany, 8 per cent; the United Kingdom, 2 per cent; France, 1 per cent; and Italy, 0.5 per cent. Since the United States alone consumes over half of the world output, mostly from domestic fields, the bulk of world production does not ordinarily enter international trade. Probably no more than one-third of world production ever crosses international boundaries. Nevertheless, world trade in petroleum is on a vast and far-reaching scale, involving almost every major nation and the ends of the earth. Aside from the two great producing-consuming nations, the United States and the U.S.S.R., the lack of coincidence renders foreign trade an absolute necessity.

For example, in 1935, a year for which adequate net export and import figures are available,<sup>4</sup> 12 nations were net exporters and 29 nations were net importers. The leading net exporters of crude petroleum, in order, were: Venezuela, Iraq, the United States, Colombia, Peru, Mexico, Iran, Romania, the Dutch East Indies, the U.S.S.R., and Ecuador. The leading net importers, in order, were: France, Canada, Japan, the United Kingdom, Germany, Argentina, Chile, Australia, Italy, and the Netherlands. Most of this importation reflected actual consumption.

International trade in petroleum is on a peculiarly far-flung basis. Imports of the United Kingdom, for example, illustrate the tremendous distances involved in world trade in petroleum. In 1939, the United Kingdom imported crude oil from the following areas: the Netherlands West Indies, 30 per cent of total imports; the United States, 22 per cent; Iran, 19 per cent; the British West Indies, 8 per cent; Venezuela, 7 per cent; Iraq, 4 per cent; Romania, 3 per cent; and others, 7 per cent.<sup>5</sup>

While this separation between producers and consumers will probably become less distinct, it is quite likely to continue to promote world trade in petroleum. Since the older nations

are scarcely likely to discover new reserves of crude oil, this separation could be minimized only through industrialization in the producing areas. While industrial possibilities surely exist in such producing areas as the Dutch East Indies and certain other regions, most of the leading producers lack certain of the requisite resources utilized in large-scale industrialization. They might, of course, import some of these necessary materials as the United Kingdom, Germany, and even the United States have done.

### *INCREASE IN WORLD PETROLEUM OUTPUT*

World markets for petroleum have increased enormously in the past century, although production of petroleum is very ancient indeed.<sup>6</sup> Wells in Persia were already venerable when Herodotus described the refining process, and the ancient city of Baku, with its burning oil springs, was the center of a cult of fire worshipers. Noah may have waterproofed the ark with petroleum; he was directed to "Make thee an ark of gopher wood; rooms shalt thou make in the ark, and shalt pitch it within and without with pitch."<sup>7</sup> The North American Indian utilized petroleum for medicinal purposes, and George Washington mentioned in his will a West Virginia spring that burned. The world-wide petroleum industry, however, with its fleets of tankers, tens of thousands of wells, huge refineries, and many subsidiary industries, has developed since our Civil War. Indeed, statistics indicate that the large-scale petroleum industry as we know it is largely a product of the Twentieth Century.

World production of petroleum has increased almost every year since 1900, this increase being drastically accentuated by the rise of the American automobile industry. In 1903, world production of crude oil was 195,000,000 barrels.<sup>8</sup> In 1913, world output aggregated 366,000,000 barrels, this total

increasing to 502,000,000 barrels at the close of World War I. By 1929 world production had risen to 1,489,000,000 barrels. Although world output slumped a bit during the depth of the Great Depression, production recovered to new peaks of 1,652,000,000 barrels by 1935, 1,983,000,000 barrels in 1938, and 2,251,000,000 barrels in 1941.<sup>9</sup> In 1945, fragmentary statistics indicate, world production reached about 2,750,000,000 barrels. The petroleum industry is one of the few great world industries whose output since 1930 has consistently exceeded the 1929 peak.

While world production of petroleum has increased markedly since World War I, the increase in United States crude-oil output since 1917 has been especially spectacular.<sup>10</sup> Over the 1917-1940 period, the number of producing wells in the United States doubled; the production of crude oil quadrupled; the proved crude-oil reserves were tripled; and the production of natural gas also more than tripled. During 1945, 422,000 wells were in production, 4,300 exploratory wells were drilled (11.6 per cent producing), and proved oil reserves were just under 21 billion barrels.<sup>11</sup> This wartime expansion of the industry was a spectacular by-product of World War II. Production of crude petroleum and gasoline rose in 1944 to more than 35 per cent more than in 1939, with a corresponding increase in the volume of crude oil refined and the output of finished products.<sup>12</sup>

This production came primarily from old fields and refineries, whose output was no longer restricted. The number of new wells drilled was curtailed by shortages of manpower and material. Equipment costing about \$1.1 billion was built to produce the enormous quantities of aviation gasoline required. Wartime investment in ocean tankers, pipe lines, and other transportation amounted to about \$2.2 billion. Of the total investment of \$3.3 billion, \$2.3 billion was controlled by the government.

## SOCIO-ECONOMIC BASIS OF GROWTH

The continued world-wide growth of industrialization and urbanization and the phenomenal expansion of the far-flung petroleum industry are closely correlated. Since cities ceased to be fortresses and became commercial and ultimately industrial centers, transport has become increasingly important. Many cities are located where a break in transport occurs and situation rather than site has become the dominant natural element in city growth. Hence, any product such as petroleum, which has speeded up and otherwise accentuated transport, affects the urban community.

An examination of the conditions facilitating the rise of great cities, at least of the Western type, is enlightening. These include the existence of an agricultural surplus; the maintenance of some degree of political consolidation; the operation of a high-speed low-cost transport system which allows mobility of men, goods, and ideas; and the existence of a technology adequate to an industrialized mass-production civilization. Since the turn of the century, the growth of the petroleum industry has vastly facilitated the creation and maintenance of all of these conditions. Petroleum aids in both the creation and the shipment of an agricultural surplus; it so minimizes the effect of time and space that effective political control becomes feasible over wider areas; it provides the motive power and lubrication so essential to much of our great transport and communication network; and it has become an integral element in our modern industrial technology.

Our world of cities and industries would scarcely have been feasible if petroleum or some equivalent source of motive power and lubrication had not been available. This relationship, however, is reciprocal. While petroleum has doubtless facilitated the growth and dominance of the urban community, the petroleum industry has also come to feed upon urbanization and industrialization. As cities grow and come to



perform specialized functions in the economy, they must import most of the goods, people, and ideas that they consume. These urban communities also produce industrial goods, serve as trading and storage centers, and ship commodities and services out to all the world. The urban community and the industrial economy of which it is an integral part occasion an enormous demand for transport and hence for sources of motive power and lubrication. As a society becomes increasingly specialized and interdependent, a larger proportion of the goods, services, and factors of production must be moved from one place to another.

The underlying world movement from *community* to *society* (or from a rural isolated order to an urban interdependent functionalized order) seems to encourage continued expansion or maintenance of the world petroleum market. Assuming for the moment that petroleum continues to be a prime source of industrial energy, the need for this fuel will presumably continue. As urbanization comes increasingly to dominate the American scene, for example, functional and territorial specialization develop concomitantly. Without territorial specialization and division of labor, no millions of men could be supported in a modern city, removed from sources of foodstuffs, of fuel and power, and of most of the requisite industrial raw materials. The possibility that our present urbanized society will retrogress into an order featuring isolation, primary contacts, self-sufficiency, and rural living seems remote. Prevailing social and economic trends seem to indicate further concentration in the cities, continued growth or at least spreading of industrialization, and consequently further development of a world-wide pattern of territorial specialization, division of labor, and functional organization.

This underlying movement toward world-wide industrialization and urbanization may well exhibit two significant aspects in the postwar world, both of which are pertinent to this study: (1) world industrial changes may increase or re-

channel the demand for petroleum; (2) world political change may break down artificial restrictions in the petroleum industry.

First, industrialization may spread to areas in Latin America, Africa, and Asia, notably such nations as Brazil, India, and China. The aforementioned continents and countries are not at present important consumers of petroleum. Their industrialization (especially in the case of Brazil with its inadequate coal resources) might well create new demands for petroleum. Yet it is possible that the new industrial nations might merely replace the old and, if so, demand might conceivably be diverted rather than increased.

Second, the underlying movement from community to society would indicate widespread questioning, diminution, and possible drastic curtailment of national sovereignty. Political sovereignty of the Nineteenth and Twentieth Century variety seems an anachronism in a world moving further toward an urbanized, industrialized, and interdependent way of life. Such a curtailment of sovereignty might well remove certain barriers to the world production and exchange of petroleum.

The foregoing analysis assumes, as is always the recourse of the badgered economist, that all other things remain for the moment equal. If petroleum were replaced by some more efficient source of motive power, such as atomic energy, even these underlying trends could not avert a slackening in world demand for crude oil.

### *INCREASED TECHNICAL EFFICIENCY*

The current wide use of petroleum is also based upon improved performance characteristics of oil and gasoline and upon the introduction of new uses for these products, making it possible to get more miles from a gallon of gasoline and to utilize petroleum more economically. The increased technical efficiency of petroleum products has also been paralleled by

a continued decline in price, exclusive of tax,<sup>13</sup> despite imperfect competition in the industry. In 1920, gasoline in the United States averaged an octane rating of 32 and had a service-station price of 30 cents. In 1927, the average octane rating had advanced to 56 and the average retail price had dropped to 18 cents. In 1930, the octane rating had advanced to 63 and the price fell to 16 cents. In 1937, the average octane rating was 70 and the average price was 15 cents. In 1941, the average octane rating had reached 74 and the average price was 12 cents. Under the impetus of World War II, technology has further advanced the efficiency of gasoline and other petroleum products, and 150-octane gas is considered feasible.

### NEW USES FOR PETROLEUM

Superficially, increased efficiency might seem to indicate that less petroleum need be consumed. Actually, this increased efficiency and lower price have facilitated encroachment by petroleum upon spheres formerly dominated by other sources of energy. In the United States, the share of energy supplied by petroleum and natural gas has been rising for decades. In the relatively short period from 1935 through 1939, this share attributable to petroleum and natural gas increased from 38 to 43 per cent of all energy generated in the country.<sup>14</sup>

Technological improvements on the demand side have also rendered increasing numbers of uses feasible. In recent years large-scale introduction of the Diesel engine in both land and water transport has created a vast and expanding new market for crude oil. Technological improvements have so increased the utility of airplanes in both peace and war that another huge market for petroleum products has suddenly mushroomed.

In assaying future possibilities along these lines, mention should be made of vast new uses for oil in now undeveloped

fields. Butyl rubber and many other synthetic rubbers are manufactured in whole or in part from petroleum. If the synthetic product continues as a formidable competitor of crude rubber, on the basis of price, quality, or even military expediency, this use might absorb large quantities of petroleum. If synthetics of this type were to be developed on a nationalistic, self-sufficient basis, however, it must be recalled that very few nations that lack crude rubber have much petroleum. Such a use for oil would depend in large part upon international trade, except in such nations as the United States and the Soviet Union. Petroleum is also being increasingly utilized in the manufacture of a host of plastics and is becoming a vital raw material in the world of industrial chemistry. It is a basic material in the manufacture of toluol, an important ingredient of trinitrotoluene.

### *PETROLEUM TARIFFS*

In view of the vital role which petroleum plays in international commerce and in the maintenance of industrial, high-speed economies, it is significant that the movement of even this mineral has been impeded. Petroleum, in company with most raw materials entering into international trade, has indeed been subject to a number of trade restrictions and controls. These include tariffs, export duties, exchange control, quotas, subsidies, cartels, national monopolies, nationalistic domestic regulation, and government-encouraged efforts to produce synthetic substitutes. Yet, because of the vital importance of petroleum, the separation of producers and consumers, and other factors inherent in the world oil industry, this mineral has not been as greatly affected as have many raw materials.

Specific, detailed information regarding petroleum tariff rates imposed by various world powers during the past two decades is fragmentary, yet certain generalizations concerning

those tariffs are possible. Whenever important nations do not possess domestic resources and are not motivated by a desire for self-sufficiency, a protective tariff has seldom been imposed. Many such importers of petroleum have preferred either to place petroleum upon the free list or merely to impose a revenue tariff. Most of these countries have also allowed petroleum a preferential position in the operation of exchange control, quota, and subsidy systems.

On the other hand, nations seeking noneconomic objectives or attempting to encourage domestic production have often established protective tariff rates or set up comparable exchange, quota, or subsidy controls. Such trade restrictions have also been designed in some instances to encourage domestic refining of imported crude oil, or to extend preferential treatment to colonies or other selected areas.

Such tariff rates and other controls were levied upon petroleum imports into Germany while its domestic synthetic industry was subsidized and protected. The German rate during the 1930-1939 decade was 14 reichsmarks (about \$5.60) per 100 kilos of lubricating oil.<sup>15</sup> The rate on all other mineral oils, crude and refined, was 21 reichsmarks (about \$8.40) per 100. Crude oil and specified refined products destined for certain uses, however, were admitted free or at reduced rates. Importers of motor fuel also had to purchase specified amounts from the German alcohol monopoly. Exchange control was also utilized to achieve similar purposes.

France also imposed duties on petroleum and petroleum products during the 1930's. The domestic refining industry was encouraged by substantial reductions in duty if imported oil was to be processed in designated French refineries. Refined products were also dutiable at higher rates than crude petroleum. Imports from assimilated French colonies were free, and entered at a minimum rate from the remainder of the Empire.

The United Kingdom, a leading world market for international shipments of petroleum and petroleum products, assessed a 10 per cent ad valorem rate on imports of crude and a higher rate on the refined product. Both petroleum and its products, however, were free when from Empire countries, although such imports were small.

Japan imposed higher duties upon imports of the refined product than upon crude petroleum, but duties could be waived on products required by the government.

Canada placed crude petroleum on the free list, although the refined product was dutiable. Empire countries were also accorded preference, as an outgrowth of the preferential system set up after the Ottawa Conference.

The United States, which is both an importer and an exporter of petroleum, also has the equivalent of a protective tariff rate on this product. To some observers, this has indicated weakness or even imminent decline on the part of the American industry, although that conclusion does not necessarily follow. Petroleum was on the free list under the Tariff Act of 1930, but the Revenue Act of 1932 imposed an import excise tax of 21 cents a barrel or  $\frac{1}{2}$  cent a gallon.<sup>16</sup> Gasoline and other motor fuels were taxed at  $2\frac{1}{2}$  cents per gallon, lubricating oil at 4 cents per gallon, and paraffin and other petroleum wax products at 1 cent per pound. The levy of 21 cents per barrel has since been cut 50 per cent in a trade agreement with Venezuela, this concession being qualified by a stipulation that not over 5 per cent of the total crude petroleum processed annually in United States refineries can be imported at the new low rate.<sup>17</sup>

### *EFFECTS OF PETROLEUM TARIFFS*

The repercussions of these tariff rates upon crude or refined petroleum are clouded by the operation of exchange

control, import quotas, barter, and other nontariff devices. In many instances, these controls operated to counteract nominal free entry. In other cases, necessary supplies of petroleum were allocated exchange, often at official or low rates, when imports of products with lower tariff rates were discouraged. Nevertheless, a certain correlation between tariff and nontariff controls has apparently existed.

While it is difficult to demonstrate statistically just what effect these tariff rates on petroleum have, perhaps they have influenced price more than they have influenced volume or direction of trade. If a relatively inelastic demand for petroleum be assumed, a tariff rate raises the cost somewhat but probably does not alter drastically the flow of trade. C. K. Leith has concluded in this regard:

Such tariffs are hindering and more or less deflecting, but not stopping, the great international flow of minerals determined by geographic distribution.<sup>18</sup>

J. W. Furness concurs:

In the international trade in mineral raw materials it must be accepted as a fact that there is a mineral trade balance between countries which can be changed only in minor ways by any effort of man. Tariff enactments may for a limited period change the flow of a specific mineral, but with the lapse of time these barriers are broken down and a flow results controlled by existing conditions.<sup>19</sup>

Contrariwise, however, the availability of other sources of energy and motive power might well introduce elasticity into the demand for petroleum. The increased use of synthetic substitutes, for example, might well increase the elasticity of petroleum demand and render these tariffs much more potent and protective. In this case, such barriers might well prove very effective methods of curtailing or even stopping the influx of oil imports.

*TARIFF DISCRIMINATIONS*

The effect of petroleum tariff schedules upon the volume and direction of petroleum trade is conditioned by the extent to which such tariffs are discriminatory. Equality of treatment, in substance as well as in form, is often very difficult to apply. As C. K. Leith has observed:

Mineral import tariffs are inherently discriminatory against certain nations in their actual effect, even when they are not specifically differential or preferential. This arises from the fact that the sources of supply are so few. A tariff on manganese from whatever source comes down to a tariff on manganese from only five countries. Inequalities of economic opportunity and political friction are not uncommon results.<sup>20</sup>

Discrimination also tends to arise because of the vital strategic role played by petroleum. An importer of oil may decide to choose its sources of petroleum with political, military, and perhaps other noneconomic factors as dominant considerations. A critic of the trade pact with Venezuela, in which the United States rate on petroleum was cut, apparently believes that such considerations were instrumental in the choice of a "representative period" which slighted Mexico.<sup>21</sup>

*TARIFFS AND CONSERVATION*

Any nation that levies a protective tariff rate upon a necessary mineral import in order to encourage a struggling domestic industry has a serious problem to solve. If the country should choose to favor the internal industry by such a tariff rate, is that action likely to deplete domestic reserves to such an extent that ultimate complete dependence upon foreign sources may result? That problem is, of course, much more imminent in many mineral industries than in the case of petroleum, at least as far as the United States is concerned.



Yet even the tremendous United States petroleum industry is not able to disregard such a dilemma.

A nation considering tariff rates upon minerals must thus consider the whole question of conservation, invention and innovation, and the role of technology.<sup>22</sup> Only by considering these matters can a country know what should be done with domestic reserves of vital minerals. J. W. Furness has asked: "How can the benefits of exhaustion be balanced against future uses? Who can say that if this or that material is not used now, it ever will be?"<sup>23</sup> This query is especially pertinent if it be assumed that necessity is indeed the mother of invention. If that relationship could be proved, a nation might assume that premature depletion of one mineral resource is of little concern.

### EXPORT TAXES

Few export taxes have been levied upon petroleum. Most of the leading petroleum exporting nations have avoided this type of excise structure, and in several areas investors in oil concessions received assurances on that score. Even where petroleum has been subject to certain export taxes, as in the case of certain Latin American producers, the effect has been problematical. It has been said of most export taxes:

The only export taxes of international concern are those which raise prices to the consumer. They stimulate the search for alternative sources and cause irritation and protest in the consuming countries. But looked at broadly, the international movement of minerals has been only slightly modified by export taxes. When they begin to cut down exports they are likely to be modified in order to preserve volume of employment.<sup>24</sup>

### CARTELS

Presumably petroleum production has not been dominated by cartelization, although certain patents on products utilizing

petroleum have been subject to cartel control. Restrictive cartelization is seldom necessary when the demand for a product relative to supply is rising in as phenomenal a fashion as that for petroleum. While a few great oil companies have dominated world production,<sup>25</sup> they have not succeeded in achieving effective production control nor even a uniform price stabilization policy.

In any analysis of many other minerals, however, the effect of cartelization upon price, output, volume, and direction of trade should be carefully studied. No completely adequate over-all studies of this type have thus far been made, although case studies of individual cartels are rather revealing.<sup>26</sup>

### DOMESTIC REGULATION

Certain nations, especially in Latin America, have also influenced petroleum production and trade by regulatory action or by confiscation of oil properties. Mexico and Bolivia have expropriated certain oil investments, while Brazil, Argentina, Chile, and Uruguay have established highly restrictive regulation curtailing concessions and controlling foreign companies.<sup>27</sup> Few of the other major oil-producing nations of the world have yet acted in this fashion, since most of these areas have been colonial, either in a political or economic sense or both. Even if these producing areas should become independent and should nationalize their petroleum industries, foreign markets would still have to be found for most of the oil. This development might well curb the volume of production, as it did in Mexico, and it might produce tariff retaliation by petroleum-consuming nations. Yet it is open to question whether even an epidemic of such legislation would drastically alter the immediate volume and direction of international trade in this vital product. Perhaps the most drastic effect that such regulation and confiscation might have would be to render further investment in petroleum less attractive.

If alternative uses exist for capital, labor, and land, world petroleum production might eventually be affected.

### *RISE OF SYNTHETICS*

During the post-World War I period, especially during World War II, an increasing number of nations also sought to introduce petroleum substitutes, notably synthetics. In many instances, this search was motivated by nationalism, by a desire to be economically self-sufficient, and by fear or anticipation of impending war. In other cases, notably in the United States, speculation and experimentation have been actuated largely by the possibility of depletion and ultimate exhaustion of petroleum resources.

This development of synthetics has usually been associated with a deliberate attempt to reduce dependence upon petroleum imports. Thus government sponsorship of such programs has often been a direct threat to world trade in petroleum.

The progress made along synthetic lines, while limited, is nevertheless impressive when placed in adequate perspective. Though the production of synthetics has thus far been inspired and facilitated by nationalism and military expediency, these new products might also conceivably prove a worthy foe of crude oil even in a postwar era of peace.

To date, foreign experience with synthetic petroleum products seems to indicate that production can be expanded only very painfully and at costs that would be prohibitive if economic factors alone were involved. In 1939, only 108,120,000 barrels of petroleum substitutes were known to be produced.<sup>28</sup> This figure includes not only synthetic gasoline from coal but also benzol, alcohol, liquid gas, methane, manufactured gas used as motor fuel, and shale-oil products. This total contrasts with the 2,146,105,000 barrels of crude petroleum produced in the world in 1939.<sup>29</sup> During World

War II, of course, synthetics increased enormously in volume.

While cost figures are fragmentary and obsolete, it is known that even in Germany the synthetic product remained a high-cost commodity and could scarcely compete in a free world economy. In the United Kingdom, synthetic petroleum products have incurred costs ranging from two to three times the average cost of imported crude petroleum.

One should be very cautious, however, in generalizing on the basis of the incomplete evidence now at hand. While world production of synthetic petroleum products is still limited, the output in the handful of nations actively encouraging such production has registered surprising gains. In Germany, a leading producer, many large plants were known to be in operation during World War II, these plants producing perhaps half the German consumption. Both the Bergius process, featuring the hydrogenation of coal and lignite, and the Fischer-Tropsch method, involving the synthesis of coal gas, were employed in the Reich. Furthermore, benzol, a by-product of coke ovens, was widely used together with alcohol as a motor-fuel blend. The bombings of these plants by the AAF and RAF during World War II attest their importance.

In Japan, a five-year plan for the production of synthetics was launched in 1937 and presumably was fairly successful. The synthetic product was made experimentally after 1936 and commercially after 1939. While the five-year plan was retarded by coal shortages and disruption of machinery shipments from Germany, increasing quantities were produced during much of the war. It is known that there were at least 12 plants in Japan proper, and 9 in the satellite areas, most of them utilizing coal.<sup>80</sup> Some plants were reported as producing 82-octane gasoline without the addition of tetraethyl lead.

Perhaps such production was feasible only under war conditions and synthetic petroleum products cannot yet compete in cost and quality with those from natural petroleum. Yet

one should be cautious, in view of the experience of the Chilean nitrate industry. In 1913, Chilean producers regarded abortive German attempts to develop an effective low-cost method of producing synthetic nitrates as of no particular concern. By 1920, the Chilean industry was fighting for its life in world markets against the synthetic products of a host of nations. By the end of the 1920's, the Chilean natural nitrate industry had definitely lost nearly all world markets. Yet the 1913 prospects for synthetic nitrates were little more promising than prospects for a low-cost, competitive synthetic fuel now appear.

The most significant factor in this regard is the type of raw material employed, notably in Germany and Japan. These materials include lignite and coal, minerals very abundant in many nations. Benzol, widely used in Europe as a motor fuel, is a by-product of coke ovens. The alcohol often used with benzol is made by fermenting vegetable matter. A bushel of wheat yields about 2.5 gallons of alcohol, a ton of grapes yields 15 gallons, and a ton of sugar beets produces 22 gallons.<sup>31</sup> Some of these materials could be utilized very cheaply in certain areas.

The United States Bureau of Mines estimates that the production of synthetic petroleum in a crude-oil producing nation such as the United States is not yet economically feasible. Yet, the Bureau admits that enough oil to last for 3,000 years at current rates of consumption, or 3,800,000,000,000 barrels, could be secured from known United States coal reserves.<sup>32</sup> The hydrogenation process has been tested with 13 different types of United States coal, and is at least technically if not yet economically feasible.

### *NATIONALISM AND MINERAL TRADE*

From the foregoing analysis, it is apparent that while industrialization and technology may well continue to expand,

these forces have not yet eliminated such obstacles as extreme nationalism. If this nationalism survives the war and perhaps stages at least a temporary resurgence, the movement of even such minerals as petroleum will be seriously curtailed. Petroleum is vital in war and peace alike, and nations cherishing their sovereignty and willing to fight for it might not want to be dependent upon foreign sources of oil. This factor has doubtless been instrumental in the synthetic production of Germany, Japan, the United Kingdom, and other countries. National lines of demarcation tend to restrict the market for raw materials and manufactures alike, thus crippling both the production and consumption of crude oil. Trade in petroleum is especially sensitive to disturbing factors of this type, for crude oil is not only a vital product but moreover it is usually produced in one set of countries and consumed in another. Thus, if industrialization, urbanization, and technological advance do not forestall the postwar dominance of integral nationalism, world trade in petroleum and other vitally important minerals might be threatened with curtailment or extinction. Ironically, many of the so-called "have-not" nations, abandoning world trade as a means of securing needed minerals and raw materials, have resorted to war at the cost of ultimate economic ruin and collapse. Yet programs of self-sufficiency and/or imperialism continue to flourish.

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31. National Resources Committee, *Energy Resources and National Policy*, p. 333.

32. "Oil," *Scientific American*, 165:253-254, November, 1941.



## CHAPTER 6

# DISTORTION OF WORLD TRADE IN OTHER BASIC RAW MATERIALS

THE PRECEDING chapter dealt with the impact of nationalistic restrictions and programs of self-sufficiency upon the international movement of minerals, petroleum being taken as a study. Many of these same direct or oblique controls have likewise harassed the world-wide industries producing industrial raw materials and foodstuffs. Tariffs, exchange control, and similar devices have restricted and channeled international trade in both of these vital categories of goods. In addition, such other factors as insufficient purchasing power, programs of subsidized domestic production, and propaganda efforts have restricted the global movement of such products. Extreme nationalism and cultural lag have drastically hampered the extension of industrialization and the application of modern technology. Without rubber, fibers, wood, and scores of other raw materials, large-scale world-wide industrialization is difficult. Without world production and trade in foodstuffs, urban-industrial communities are restricted in size by the limited food surplus that can be provided in the domestic hinterlands. This chapter will describe and analyze some ways in which international movements of pivotal raw materials have been distorted and circumscribed.

## INDUSTRIAL RAW MATERIALS

### *World Trade in These Materials*

While international trade in some industrial raw materials is more important than in others, such movement is very ex-

tensive in the aggregate. Industrialization, high-speed transport, and the high scales of living prevailing in some Western areas have stemmed in part from continued importation of these vital materials.

World trade in the industrial materials is a function of the localization of production and the advanced state of technology. Where an agricultural raw material has been needed by modern industrial technology, a correspondingly large amount of a material has usually entered into world trade. Over 90 per cent of the world's crude rubber has been produced in the industrially backward colonial areas of Malaya and the East Indies. Virtually all of this production has been exported to the United States and Western Europe. (In 1938, for example, this Asiatic area provided nearly nine-tenths of United States imports of crude rubber.<sup>1</sup>) Rubber may be said to be representative of many of the tropical agricultural raw materials. Grown in populous colonial territories, these products have been shipped to the consuming centers in populous industrial nations.

Trade in the tropical raw materials is so extensive as to constitute a definite problem in international commerce. Many colonial territories produce only primary goods of a highly competitive nature, which are consumed in markets far removed from these areas and subject to many economic fluctuations alien to simple native communities. Thus a violent economic disturbance in the United States, the principal consumer of crude rubber, may upset completely the entire economy of southeast Asia. Rubber swiftly declines in value, native laborers are cast loose from the plantations, the natives lose their money income, and the populace sinks into semi-starvation. Economists may exhibit this situation as an excellent example of the ramifications of modern economic society, but to these primary producers it is pure terror. A remedy for this situation is the diversification of the local economy, but such diversification is a manifest violation of the principle

of *least-cost production*. What these nations can produce most cheaply is rubber; if they substitute coconut for rubber they have sacrificed some of the efficiency of the world economy. A more adequate approach might be to remove some of the distortions in world trade and economic relations arising from integral nationalism, economic autarchy, and frustrated technology.

World trade in wool assumes a very different pattern. Because of the localized production of wool throughout the world, a large proportion of each year's clip does not enter world trade.<sup>2</sup> Thus the world trade in wool is but a small percentage of the total wool production. At the same time, however, one must not minimize the effect of that trade, particularly upon certain wool-producing nations. An extremely large proportion of the world trade of New Zealand, Australia, Union of South Africa, and Uruguay is involved in the export of wool. About 70 per cent of the world export of wool comes from these four nations. Thus the proportion of world wool production that enters foreign trade is very small, but the importance of wool in the foreign trade of certain nations is very great.

In certain raw-material industries once oriented almost exclusively toward world markets, the spread of industrialization has increased the relative importance of domestic markets. Cotton offers an instance of a potential shift in trade which may be paralleled for other agricultural raw materials as time passes.<sup>3</sup> Before the American Civil War, cotton was produced almost exclusively in the southeastern United States. As more nations became industrialized and demand increased, the sources of supply began to expand, Egypt and India undertook the cultivation of cotton. Industrialization spread further, and other colonial nations began to be exploited. Then nations with raw cotton and an industrial potential began to erect their own textile mills. As a result of this shift in textile production, the imports of the leading cotton

importers have undergone a slow but steady decline since the late 1920's. Embryonic industrial nations have ceased to export the major part of their cotton crops and have begun to build a textile industry at home. The cotton production of India, Brazil, China, and Argentina has continued to expand at a rapid rate; but their exports have remained stable or have expanded at a much slower rate.

### *Barriers to Trade in Industrial Raw Materials*

In view of the importance of industrial raw materials in world trade, barriers to movement have become burdensome to the entire world economy. The impediments to world trade in the realm of agricultural raw materials, as well as all other internationally traded commodities, are of two general types. In the first category are those overt restrictions which tend to divert trade from the normal channels and which attempt to control the supply of individual materials. The second category includes attempts to encourage substitution and economic self-sufficiency, often for political, social, and military reasons.

In recent years the first group of impediments has assumed a position of great importance, and the collapse of foreign trade has been attributed in part to these practices. The world in recent years has been subjected to an unprecedented variety of trade-control measures. International trade has been influenced by a conglomeration of import and export tariffs, exchange controls, clearing agreements, import and export quotas, and a host of other restrictions which divert or eliminate the prevailing flow of trade between nations.

### *Import Controls*

Importing nations generally have placed relatively few restrictions upon trade in agricultural raw materials. This condition has been the result of the rather highly localized character of both production and consumption of many of

these commodities. Only wool, which is produced over a very large portion of the world, has been subject to a widespread imposition of tariffs and quotas. Cotton has been subjected to few restrictions, because each cotton-producing district has tended to specialize in a distinct type of cotton. Peruvian cotton, for example, combines well with wool, and thus commands a market throughout the textile world. Timber and timber products have seldom been subjected to widespread tariff and quota restriction, largely because of the high cost of transportation and the reluctance of many states to exploit local stands of timber. The production of synthetics from grain has been little affected by external restrictions. Here the end-product is produced either from by-products of the grain or from surpluses which it has not been economical to market. Synthetic materials have often been developed because of international crises or in anticipation of them. As such, they have a strategic character which has often removed them from the sphere of economic analysis. Thus the restrictions upon the imports of these commodities have been relatively light, because both production and consumption have been rather localized.

### *Export Restrictions*

The very condition that has given rise to freedom from import restrictions has brought forth a maze of restrictions in the area of export. National monopolies, export tariffs, and cartel agreements have been fostered because the production of many of the agricultural raw materials is highly localized, and because the exporting nations have considered the products to be strategic or necessary. Prominent results of such efforts were the Japanese camphor monopoly, the highly cartelized production of quinine,<sup>4</sup> and the multiplicity of efforts aimed at the control of rubber production. (For a description of such controls, see Chapter 7.)

The early concentration of the wild-rubber industry in Brazil led to the levy of an export tax which was at one time

virtually the sole source of revenue for the Brazilian government. This tax, plus the attempt to control supply by a national monopoly, led to the creation of the plantation-rubber industry in the Far East. Following World War I an attempt was made by the British possessions, then in control of 80 per cent or more of the production, to exploit their favored position by restricting their production.<sup>5</sup> The program collapsed in 1931, at which time the British found themselves on almost even terms with the Dutch as to shares of world rubber production. A more recent control scheme initiated in 1934 overcame the principal objection to the earlier plan, which had not included many great or potentially great producing areas. In addition, the newer plan pursued a more effective price policy, which served to protect the producing areas' control over output.

These instances seem to document several conclusions concerning such production control. Restrictive and monopolistic handling of agricultural raw materials may, easily lead to a rapid change in the direction and volume of trade. The competitive advantages of least-cost production may have localized production and thus created a temporary monopoly, but the area of climatic and physical tolerance for most crops is much broader than the area of production. Price increases by the monopolist encourage the establishment of new competitive areas which must be allotted a quota in future production. For him who would control the production of agricultural raw materials, the slogan might well read *caveat productor*.

### *The Use of Substitutes*

The possibility of substitution and self-sufficiency plays an important part in the production of agricultural raw materials, and thus assumes major importance in the location of enterprises that use them. Substitution may be of at least three different types. First, one natural agricultural raw material may be substituted unchanged for another. Second,

one agricultural raw material may be chemically converted to make it substantially equivalent to another. Third, scrap or reclaimed materials may be employed as substitutes for raw materials.

The first type of substitution may be illustrated in the efforts to use ramie, a vegetable fiber, as a substitute for silk. This movement grew from the groping of national states after World War I for home-grown substitutes to replace strategic materials previously obtained through international trade. The difficulties involved in securing the labor supply necessary for the production of ramie, and the hesitancy to invest capital in such uncertain ventures, were sufficient to discourage all attempts to produce the crop on a commercial scale in the United States.

The search for natural substitutes for rubber has had a similar history. During the rubber booms and the attendant uncertainty in the industry, several attempts were made to find other latex-producing plants that could be produced cheaply and within the control of the consuming nations. Experimental plantations for growing the castillo tree were established by British and American planters in the British West Indies, Mexico, and Dutch Guiana. Experiments also led to a minor speculation in the commercial possibilities of the guayule plant, which could be grown on waste land and was found to produce a satisfactory grade of latex. Needless to say, these ventures were quickly overshadowed by the commercial plantation production of the East Indian rubber ventures. Not even an adequate supply of labor could have compensated for the small latex content of the two proposed substitutes. The cutting off of these supplies during World War II brought renewed efforts to find home-grown substitutes for rubber, impelled by the urgency of military necessity rather than a desire for greater economy. Ultimately, of course, chemistry was utilized and a synthetic industry was fully established.

The replacement of one natural raw material by another has occurred but rarely in recent industrial history. Substitution ordinarily assumes other forms, particularly those associated with chemistry and the use of scrap. The second type of substitution employs one of the most dynamic forces of the Twentieth Century, modern chemistry. In recent decades, chemical processes have moved into a central position in the industrial economy, through the creation of hundreds of new products and processes and the consequent shift in sources and types of raw materials. On the one hand, chemical industries have enabled nations to provide locally produced substitutes for imported articles, while on the other hand they have often impelled world-wide search for raw materials required for new products. Thus what may be called the chemical revolution has implemented both economic nationalism and world trade, but its effects have differed greatly from one nation to another.

The competitive situation among the chemically altered agricultural raw materials is often quite confused. The new creation of the chemist's laboratory may compete with natural products or with similar products synthesized from other agricultural raw materials or minerals. Thus, wood pulp produced from timber is transformed into varying types of rayon, which compete directly with the natural fibers—silk, cotton and wool. Other competing fibers are derived from coal, and the most successful substitutes for rubber are made primarily from coal, petroleum, or grain alcohol.

Modern chemical technology has offered still another substitution pattern. The chemistry of modern plastics is based on the primary production of agricultural raw materials. One of the most important elements in this substitution process has been the conversion of starches and celluloses by chemical processing into plastics or other synthetic materials. It has been the aim of the chemist to create a less costly product, a new and superior product, or a product which will replace



minerals, thus conserving the supply of these important expendable materials. In the production of airplane parts, where accurate light-weight mass-production parts are desired, plastics have come into wide use. The liquid plastic can be poured into inexpensive molds and made to conform to very precise specifications. Henry Ford, in his back-to-the-land movement, pioneered the use of plastics created from agricultural raw materials in the production of automobile parts. This innovation did much to speed up production by providing cheap, attractive, light, and highly standardized products. Beyond such uses lie the thousands of other commodities and gadgets manufactured from plastics.

Industrial chemists claim that the completion of expansion in this field will inaugurate an age of plastics rather than an age of metals. If their predictions are even partly correct, the importance of agricultural raw materials is destined to increase in the world economy of the future.

The third type of substitution embraces the use of reclaimed and scrap materials. Salvage programs and the use of scrap have long assumed importance in many industries based on agricultural raw materials. Two of these developments which have achieved special significance are the reclamation and re-use of rubber and wool. Reclamation of rubber was begun during the shipping crisis created by World War I. The high prices of the 1920's allowed the rubber manufacturers an opportunity to perfect their salvage techniques. Reclaimed rubber had become so much a part of the rubber industry that even in the depths of the depression, when the price of raw rubber was far below the cost of production, the ratio of reclaimed rubber to the crude product never fell below 35 per cent. In World War II, reclaimed rubber was of considerable importance.

For a number of years reclaimed wool has played a very significant part in the manufacture of low-priced woollen goods. Some of the elasticity of the fiber is lost in the process

of reclamation, but while the price of virgin wool remains relatively high there is a ready market for reclaimed wool.

Certain broad generalizations may be drawn regarding substitutability among agricultural raw materials. Modern technology, particularly modern chemistry, has multiplied the possibilities for substitution among the products of agricultural raw materials. This affects the prices and supplies of the primary materials, as well as the way in which they are combined with each other and with other factors of production. Substitutability also exercises marked effects upon the location of these industries. New products and processes replace one material with another, with corresponding changes in the areas of production. Nations rise and decline as the sources of supply and the patterns of economic interdependence change constantly.

### *Technology and Self-Sufficiency*

The effects of new technology upon international trade are of great concern to the world economy. On the one hand, modern science and engineering broaden the base of world trade by necessitating a search throughout the world for products which may be integrated into existing production. A new and profitable use for platinum sends prospectors out into new territories hitherto unexplored or unexploited. Beryllium comes into demand when it is found that the addition of beryllium to copper creates a metal that can withstand tremendous pressure and wear. Such discoveries broaden the base of world trade and manifestly increase the amount of interdependence between nations.

Opposed to this trend is the tendency for science to be used to bolster the self-sufficiency of a nation and to (presumably) render it increasingly immune to the vagaries of international trade. Materials considered to be militarily strategic are developed from commodities possessed in great quantities by the homeland. Germany set out to make synthetic

rubber from potatoes, via alcohol and a butyl compound, thus acquiring a new strategic material from a crop surplus. The United States produced airplane engine parts from surplus grains via synthetics derived from formaldehyde and carbolic acid. Modern technology thus expands the scope of world economy, yet it facilitates national isolation. These forces often work simultaneously, side by side and at cross purposes, within the same country.

Forecasting the course of world trade in industrial raw materials, in view of the presence of such contrasting factors, is extremely difficult. In the past, technological forces have brought increasing interdependence to the world economy. Historically, the tendency for science to expand the list of strategic materials, scattered the world over, has transcended the many attempts of individual nations to isolate and insulate themselves from the rest of the world.

One of the principal reasons for anticipating a revival of this trend is that nations which concentrate on self-sufficiency also deprive themselves of many of the more important achievements of international technology. Technological progress is almost certain to be most rapid in those industries toward which inventors and scientists in all parts of the world are directing their researches. No nation may be presumed to have a monopoly of inventive genius and organizing ability. In the United States, for example, more than half the major inventions and processes of modern industry are based upon the discoveries of foreign scientists and inventors. If the United States were to direct its industrial energies toward utilizing only those resources found within its boundaries, it would quickly find that many now useful foreign inventions and discoveries were not applicable. Indeed, this policy would seem to destroy the whole foundation of modern international science and technology, inasmuch as it deprives the nation pursuing such a course from access to the invention and discovery of the rest of the world.

*Deficient World Purchasing Power*

Although it has not prevented, and has perhaps actually accentuated, trade in raw materials, deficient purchasing power in vast areas of the world has surely distorted this trade. This deficient purchasing power, especially in economically colonial extractive producing areas, has been both an effect and a cause of the world-wide division of nations into raw-material exporters and raw-material importers.

Raw materials have moved in enormous volume from the extractive producing areas to the great urban-industrial nations, in part as a result of short-run cost considerations, in part as a consequence of the industrial head-start of the Western powers, and in part as a feature of the world-wide system of political and economic colonialism. In the process, mass purchasing power in the colonial areas remained low. This factor, plus inability to accumulate domestic capital under such a regime, tended to perpetuate this complementary system. This forced concentration upon the export of raw materials precluded domestic industrialization which might economically utilize the raw materials otherwise exported. Raw-materials export, while nominally in accord with least-cost principle, was thus often merely an outgrowth of limited domestic purchasing power and the use of foreign capital primarily for extractive purposes.

It has been tacitly accepted that purchasing power in raw-materials producing areas is low. We have never thoroughly investigated the reason why some nations are so poverty-stricken that they are unable to accumulate capital and thus create the purchasing power so badly needed. It is startling to learn how very poor and wretched the greater part of the world is. (See Chapter 9 of this book.) This poverty is a reflection of the lack of purchasing power of large groups in most of the nations.

The Indian peasant serves as an excellent example. He is

confined to a small plot of ground, and his output is taxed so high and priced so low that he is unable to extricate himself from the debts incurred to keep himself and his family alive. How will this type of person ever obtain enough purchasing power to participate in the society which Western nations hope to achieve? Neither he nor his nation will be able to purchase needed raw materials until the impediments to the accumulation of purchasing power have been removed.

Agricultural and other raw-materials producing nations have often bemoaned the terms upon which they were forced to trade in their contacts with world society. Often these raw-materials producing nations, being late comers to the scene of international exchange, have been forced to accept terms which left them at a tremendous competitive disadvantage and placed manufactured goods at a great premium. They must sell to exist, so they sell at any price; the manufacturer sells only at a price which assures him of the cost of producing the commodity. This disparity has been highlighted during each period of world economic crisis or depression, when prices of manufactured goods have been maintained far more effectively, through curtailed output, than have raw-material prices. This inequity had led to parity demands and domestic subsidies and price supports, and it has also led to a cleavage between exporters of raw materials and foods and importers of their products. These programs tend to lead to policies of import restriction and bargaining among nations for preferred positions. It is not inaccurate to say that the crux of the problem of impediments to trade lies not so much in the apparent restrictions as in the underlying lack of purchasing power and of the means to secure such purchasing power.

This lack of adequate purchasing power may, of course, actually lead to trade barriers and to a diminution as well as a distortion of raw-material trade. Lack of purchasing power may result in tariffs and other devices aimed at facili-

tating industrialization of formerly extractive economies. Likewise, restrictions to trade may give rise to lowered purchasing power on the part of the community of nations. The circle becomes markedly vicious when the actions of individual nations are such as definitely to promote disadvantageous positions for competing nations.

## FOODSTUFFS

### *World Trade in Foodstuffs*

Food has entered to a significant extent into world trade, in prosperous and famine years alike. World specialization has reached the stage where even such great raw-material-producing areas as Latin America import foods necessary to sustain laborers on plantations producing other foodstuffs for export. The bulk of food imports, of course, have been taken by the major industrial countries.

Three distinct trends are evident in the general historical tendency of nations to reach toward distant lands for part of their food supplies. First of these, and often paralleling rising scales of living, is the tendency to introduce exotic foods which cannot be grown locally. Prominent examples include the introduction of sugar, coffee, and tropically grown spices into Europe and other temperate-zone areas. Introduced as luxuries, these foods eventually came to be regarded as necessities. A second trend is observable in the replacement of home-grown foods by foreign foods of the same type when the imports can be obtained more cheaply. The replacement of English mutton and Italian wheat by imports of these same commodities are excellent examples of such changes in sources. Finally, industrialization and its attendant increases in population often make it impossible for certain areas to produce all of their food locally, simply because not enough land is available. England has come to depend largely upon foreign lands for its food, partly because foreign foods are cheaper,

partly also because England's food-growing resources simply are not sufficient to meet that nation's needs. As transportation, refrigeration, and storage facilities have improved, the movement of foodstuffs internationally has been accentuated.

To maintain perspective, it must be noted that the vast bulk of food production moves within countries, a much smaller amount from one nation to another on a given continent, and a minor fraction from continent to continent.<sup>6</sup> This generalization is especially true in Asia, the largest food producer, where transportation is limited and subsistence farming is the prevailing pattern. Of all continents, Europe, with its highly developed transportation and multiplicity of national boundaries, has the largest volume of trade among continents and the largest volume of trade among its nations.

All told, about 67 billion pounds of food (or 6 per cent of world output) enters into intercontinental trade. This figure disguises the fact that food trade is often in high-priced and luxury items, with a value disproportionate to poundage.

The following simple table reveals the volume and the role of intercontinental although not of international trade in foodstuffs, continent by continent:

Approximate Food Production and Intercontinental Trade—Dry Basis

Continent	Billions of pounds		Per cent trade
	Production *	Trade	
Asia .....	639	12 exported	2
Europe .....	271	67 imported	25
North America .....	123	18 exported	15
Africa .....	91	6 exported	7
South America .....	71	22 exported	31
Oceania .....	15	9 exported	60

\* Less feed and seed. This restriction overstates the role of Asia, for 14 per cent of Asia's grain is used for feed and seed, in contrast to 75 per cent for North America, 61 per cent for Europe, 41 per cent for Oceania, 34 per cent for South America, and 13 per cent for Africa. The use of poundage also overstates the relative role of subsistence areas, understates the role of other areas.

*Overt Restriction of Trade*

Every resurgence of nationalism (and its corresponding emphasis upon national self-sufficiency) has been marked by an effort to reverse these trading trends. Such attempts have featured financial encouragement to local food producers; efforts to alter local dietary habits through propaganda and substitution; and import tariffs or other barriers to trade. The latter, even when effective in producing sharp price increases or bringing outright stoppage of trade, has often resulted in long-run failure. A fundamental problem confronting such policies is the tremendous popular resistance to changes in food habits. Governments have learned that there is no surer way to arouse public indignation than to forbid the use of certain standard articles of food. Shifts of this type must be induced much more subtly through the devices of psychology and technology. In any event, tariffs or other barriers against food imports must be supplemented by domestic production, by substitutes, or by both. If demand for the product cannot be satisfied by domestic output, or cannot be diverted into substitutes, overt trade controls become rather futile.

*Regulation of Domestic Supply*

Control over domestic output of food, involving curtailment, expansion, and product shifts, has become widespread. Such control has also constituted a significant factor in world trade in a host of foodstuffs.

Despite periodic famine and long-run world scarcity, the capacity of some nations to produce food has increased so rapidly that during recent decades many nations have found it necessary to curtail farm production in order that prices might not be brought to ruinously low levels. In the 1920's and 1930's food production increased without much regard to the business cycle and the levels of effective demand. Since farming is usually a highly competitive industry, and farmers



of the world have not been able to act collectively to control the amount of products placed on the market, governments very generally began to assume this function.

When the world price of coffee fell to low levels, for example, the government of Brazil took steps to restrict the amounts that could be shipped out of the country. Warehouses were built to store the accumulating supplies, laws were passed forbidding further planting, and official permission was required before coffee could be exported. Other nations have followed similar policies designed to restrict the volume of crops marketed to an amount that would insure a "fair" return to the producers. In the United States the primary emphasis was long upon the restriction of production, implemented by payments to farmers who would refrain from producing crops in which there was excessive production. American farmers were paid bonuses to retire cotton, wheat, and corn land from cultivation.

### *Shifts in Production*

Excursions into agricultural planning inevitably led nations to inquire into what was being received for the subsidies that were being borne by their citizens at large. In the United States, such expenditures were considered justified if they brought about conservation of the soil in the long-run social interest. But in Europe, where a new world war seemed inevitable, the subsidies were used largely to make individual nations more nearly self-sufficing in foodstuffs. At the outbreak of World War II, most of the countries of continental Europe had redesigned their agricultural economies to the extent that they were nearly self-sufficient with respect to food. The long-standing trend in which for many decades the industrial nations of Western Europe had come to depend more and more upon foreign sources for their food supplies was thus reversed. The shift meant, of course, an abandon-

ment of low-cost foreign sources in favor of higher-cost domestic sources of foods.

The extent to which nations have been able to reduce their imports of foods and expand their home production was well illustrated in Germany and Austria. In the late 1920's, before the Nazi program of accentuated self-sufficiency was launched, these nations still imported large quantities of foodstuffs, including wheat, potatoes, lard, and beef. All of these commodities could be produced at home and they were standard items in the local diets. As a part of their program for military self-sufficiency, the Nazis set about to reduce imports and expand home production, soon after they took over the German government in the early 1930's. This was a new and extreme version of a policy sporadically in force in Germany after the Franco-Prussian War.

By 1938 Germany and Austria had succeeded in reducing imports of all of these basic food items by 50 per cent or more; and in every case, home production was expanded. The amount of land devoted to wheat was expanded by one-third and the potato acreage was increased by one-eighth. For both these crops, production increases were more than sufficient to offset the reduction in imports. The meat-and-fat program was less successful than the grain-and-potato effort, but the number of meat animals was increased by one-fifth during the period. Other nations also launched similar programs and world trade in foodstuffs declined generally. Between 1925-1929 and 1939, for example, the world trade in sugar declined nearly one-third.

When a nation such as Germany decreases its purchases in foreign markets, the economies of other nations which formerly sold to that country are affected adversely. The United States, for example, lost a major outlet for its lard, and Canada was unable to export some of its accustomed wheat. It soon became obvious that many nations had to curtail production accordingly. Our present analysis, however, is not primarily

concerned with the ramifications of such policies, but rather with the underlying factors which produce and popularize them.

National policies for food self-sufficiency were much more thoroughgoing than for either minerals or industrial raw materials. Success could be expected since the demand for staple foods was not expanding nearly so rapidly as the demand for minerals and other industrial raw materials. Moreover, increases in technical efficiency had made it possible to produce more food per acre and had thus released much land that was formerly required for certain crops. Land thus released became available for crops that had been imported, and could be used to grow these new crops because of the relatively broad climatic and soil limits of the more important food crops.

Within a given nation, such policies assume a familiar pattern. A nation, normally self-sufficient for dairy products, finds that because of improved farm practices its dairy production has expanded until it has a surplus beyond normal requirements. Advertising and other promotional efforts fail to expand the home demand for dairy products, and prices begin to decline. In a choice between developing foreign markets and retiring certain dairy lands from production, the nation decides upon the latter course, primarily because this land can be used to grow wheat, which is normally imported. The government therefore encourages certain dairy farmers to shift to wheat production, making the shift worth their while by subsidies or tariffs (or both) designed to make wheat growing profitable. In the shift from dairying to wheat farming the price of a loaf of bread may have been raised as much as 10 per cent, but the public might well be convinced that such an increase is a small premium for the insurance against being deprived of wheat in time of war.

Opportunities for shifts from one staple temperate-zone food crop to another are comparatively common; and the

loss in efficiency which results is likely not to be great enough to produce public indignation. On the other hand, if the policy demanded the growing of cotton or rubber under glass in hothouses, the added expense would be too great for the public to support. And as for trying to produce copper or petroleum in a country which has neither of these mineral resources, the accomplishment is obviously impossible.

### *Dietary Changes*

Both the degree to which specific foods are replaceable and the character of consumption patterns have been materially influenced by national policies. It is possible, within limits, to persuade people to change their diets to favor those food products that can be raised at home. We realize, of course, that dietary habits change slowly, and that government agencies are very reluctant to force such changes upon their people.

Psychological attacks on foreign foods may take a variety of forms. Mussolini attempted to reduce wheat consumption in Italy by telling his people that spaghetti eaters were less virile than others.<sup>7</sup> Other rulers have emphasized vitamins and minerals. Such efforts have been almost entirely unsuccessful, and propagandists have generally resorted to an appeal to fear—fear of invasion, or fear of a blockade cutting off foreign supplies. In the latter case, people may conclude that since they must get along without a particular food in time of war, they may as well get used to being without it while they are preparing for war. Thus the ruler who desires to eliminate a foreign food from the diet of his people is forced into a virtual preliminary declaration of war long before he is actually ready to undertake military operations. Such decidedly inferior military strategy can be avoided only if the people can be persuaded to prefer home-produced substitutes.

Psychologists tell us that if we must take away one of a child's prized possessions, the most successful procedure is to

offer him something equally desirable in exchange. A usual part of the procedure, of course, is to convince him that the substitute is as good as the original article. The general public reacts slowly and skeptically to such persuasion. Consider the sugar from the temperate-zone belt, chemically virtually identical to cane sugar from the tropics. Years of extensive advertising were required, however, to convince the American housewife that the home-grown product was identical to the original.

Dietary shifts are difficult to accomplish unless the new article is made to appear either identical in quality or superior in taste to the original product. Technology, however, has aided the process of substitution by providing an increasing number of precooked and premixed foods. Thus it appears to be quite possible to substitute large quantities of corn syrup for sugar in the manufacture of ice cream and canned goods, but it is extremely difficult to persuade the housewife to make such substitutions in the kitchen. In general, the possibility of substitution has been increased insofar as the identity of the basic ingredients is lost in the processing of foods before they are purchased for consumption. Thus it appears that the most successful attempts to alter a people's food habits have been concerned not with the actual diet, but rather with the elements which compose it. When one stops to consider the basic foods in most diets, however, the possibility of substitution does not appear extensive. Cheap and acceptable substitutes for wheat, rice, meat, sugar, and green vegetables have not yet been discovered.

### *Sugar as a Brief Case Study*<sup>8</sup>

Sugar is produced most cheaply in the frost-free tropics as a product of sugar cane. Many temperate-zone nations have chosen, however, to develop their own sugar industries, utilizing sugar beets. Such relatively inefficient production has been paid for by the people of those nations either by direct

subsidies from public treasuries or by higher prices instituted by protective tariffs.

In the case of many foods, public acceptance of substitute products has been hampered by differences between the substitute and the original. Beet sugar, however, once introduced, can be made virtually indistinguishable from the cane product, and therefore almost entirely competitive. In the meantime, technology has been lowering the costs of producing both cane and beet sugar sufficiently, so that relatively high tariffs could be attached without domestic increases in the price. At the same time, the competitive position of sugar relative to other high-calorie foods was not weakened materially.

If the world population were to adopt a policy of buying sugar where it could be obtained most cheaply, we might anticipate at least a partial abandonment of sugar beets and a concentration of sugar production within the tropics. An abundance of good land is available in frost-free climates having a heavy rainfall throughout the year, but with one short dry season in which cane could be harvested. These conditions are met in Cuba, Java, India and many other tropical areas. Problems of soil depletion and erosion do not appear to be serious in these areas, and there is no prospect of a shortage of good sugar-cane land within the required climatic zones. With modern methods, the labor requirements for production are not large, and these demands could ordinarily be met by the supply of experienced labor already available in the areas where expansion would occur. Impediments to such a change in location lie largely within the realm of national policies designed either to make nations self-sufficient with respect to sugar, or to prevent the decline of industries which have already grown up as a result of such policies.

Sugar production is not identical with other types of food-producing industries, but it illustrates the major aspects of the general problem: large excess capacity, competition with

other food products, and political manipulation in the interests of national self-sufficiency.

#### WORKS CITED IN CHAPTER 6

1. See U. S. Tariff Commission, *Crude Rubber*, p. 17.
2. See Nels A. Bengtson and Willem Van Royen, *Fundamentals of Economic Geography*, map on p. 649.
3. See Erich W. Zimmermann, *World Resources and Industries*, pp. 325-378.
4. See also Benjamin Wallace and Lynn Edminster, *International Control of Raw Materials*; and Robert F. Martin, *International Raw Commodity Price Control*.
5. See, for an analysis of the rubber cartel since World War I, James Cooper Lawrence, *The World's Struggle With Rubber, 1905-1931*; and Charles R. Whittlesey, *Governmental Control of Crude Rubber*.
6. This material, including the table, is from Chapter 2 of Frank A. Pearson and Floyd A. Harper, *The World's Hunger*, and is reprinted by permission of Cornell University Press. This is a provocative summary of the current food situation, with a very useful bibliography.
7. For a treatment of such attempts, see A. E. Taylor, *Economic Nationalism in Europe as Applied to Wheat*.
8. Also consult U. S. Tariff Commission, Report No. 73, Second Series (*Sugar*); and Myer Lynsky, *Sugar Economics, Statistics, and Documents*.

## CHAPTER 7

# THE GROWTH OF CARTELS

THE SAME unresolved conflict between modern technology, cultural lag, and extreme nationalism which has produced breakdown in the international trading mechanism has also facilitated the emergence of cartels. These cartels, whether domestic and concerned with protection against foreign disruptive influences, or international and involving a host of countries, have in turn further distorted and channeled trade and investment.

For the purposes of this brief analysis, a loose definition of cartels will suffice. They will be considered as *trade combinations of enterprises that are legally and sometimes economically independent*. The distinction between cartels and gentlemen's agreements, syndicates, and trade associations is mainly a juridical one; economically the line of demarcation is not distinct. In Germany and France these organizations are commonly known as cartels, while in England they may take the name of trade associations or boards. In most countries the definition of cartels is based on or similar to the legal definition given by the German Cartel Court. A cartel can be called "a contractual association of legally independent entrepreneurs in the same or similar field of business, formed with the intent or effect of influencing the market or production by means of channeling competition."

## ORIGIN OF DOMESTIC CARTELS

The primary economic factor motivating the formation of domestic or national cartels has been the need for large con-



centrations of capital. While this factor has also been of importance on the international level, its role can best be initially sketched in regard to domestic cartels.

The growth of large producing units with their tremendous output has reduced the number of producers and entrepreneurs in a number of industries. Although there is doubtless an *optimum size* for each industry beyond which growth does not promote efficiency, the bigger unit is likely to produce more economically and efficiently. For this reason there has been, since about 1880, a steady and irresistible trend toward larger producing units and combinations. During these decades modern industrial countries experienced far-reaching structural changes in industry and commerce which appear to be as fundamental as the changes brought about by the initial establishment of the factory system. Modern industry in countries such as the United States, the Soviet Union, Britain, Germany, and Japan is organized, mass-production industry. Traditional single-unit competition has largely given way to organized large-scale production and marketing. This generalization does not mean that the independent producer has disappeared, for there are still important segments of North American or British industries where he prevails. Neither must this generalization be taken to indicate that limits to bigness have not appeared, for many industries have apparently either passed optimum size or are approaching it.

The motive that in the beginning prompted the organization or combination of businesses into large units was not necessarily any desire to establish a monopoly; instead or in addition, it may have been an urge to greater efficiency under new conditions. With this urge was combined the encouragement to investors made possible by the development of the limited-liability share company—what we in the United States call the *corporation*. The new corporate producing units represented large combinations of capital, diverse in ownership but concentrated in control. Thus previously existing units

of production were joined with each other under uniform ownership or control.

Mass production of standardized products changed the relationship between capital used in the form of plants and machinery (fixed capital) and the supply of land and labor. The amount of fixed capital invested grew faster than the variable costs, which increased or diminished with changes in output. During the early depressions of the capitalist era, overproduction was curtailed by merely ceasing to produce, letting labor be dismissed and machines lie idle. The losses incurred by such idle plants were comparatively small when they composed a relatively small part of the total investment. But with the relative and absolute growth of investment in fixed capital, the entrepreneur found it much more difficult to weather depressions; investments were so large that he could not afford to close the plant without running the risk of closing it permanently. His need for a stabilization of production became pressing.

The early depressions often fell on industries composed of hundreds or thousands of small producers. It was the accepted understanding that such crises would eliminate the least efficient producers and thus eliminate surplus capacity as a precondition for a new business cycle. Enterprises failed, and their capital was written off. In modern industry where capital is concentrated, often in a few enterprises, such reduction of surplus capacity by bankruptcy becomes a difficult social and political problem, since millions of workmen and stockholders are involved. In a number of countries it has become the objective of government policy to prevent old-time cut-throat competition between large enterprises.

The desire to combine in order to achieve stabilization is an outcome of the concentrative development. One of the more important ways to stabilize production is to restrict or eliminate competition. Thus, a number of important indus-

tries have become planned production industries, the degree of over-all control varying from country to country. It depends upon tradition in the given country and even more upon the economic resources and opportunities of the nation. The historical tradition of Germany favored the trend toward combination, but economic necessities provided the stronger impetus even there. The tradition of England is of economic individualism, yet the pace of combination in England has not been much slower than in Germany.

Once an industry has become organized in one form of combination or other, it forces other industries to do the same in order to protect themselves. This influence applies not only on a national scale but also on an international one, for an unorganized industry is definitely at a disadvantage competing with an organized one. In order to meet international competition of the organized German chemical industry, the English chemical industry had to cartelize. In order to eliminate international competition, the German chemical industry had to urge and press the organization of chemical industries in Scandinavia, Switzerland, Belgium, France, and other European nations. Very often new chemical industries in such countries were established, financed and controlled by the German Chemical Cartel, so that new industries in such countries as Hungary and Yugoslavia never passed through the stage of competitive capitalism.

### *SCOPE OF DOMESTIC CARTELS*

The growth of national cartels has been very rapid. Perhaps such organizations have been most spectacular, or at least most obvious, in Germany. The following brief statistical table illustrates in simplified fashion the rise of cartels in Germany during the period from just before the Franco-Prussian War to the dawn of the Hitler regime.

Growth of Cartel Movement in Germany<sup>1</sup>

Year	Number of cartels	Year	Number of cartels
1865 .....	4	1900 .....	300
1875 .....	8	1905 .....	385
1887 .....	70	1911 .....	550-600
1888 .....	75	1922 .....	1,000
1889 .....	106	1924 .....	1,500
1890 .....	117	1925 .....	2,500
1895 .....	143	1930 .....	2,100
1896 .....	250		

While a substantial number of cartels existed prior to World War I, the greatest increase in their number took place during that war and during the first and second depressions in the postwar period. The figure for 1930 in Dr. Callmann's table, which indicates a decline, is misleading. The second depression in Germany, in 1930, saw a spread in the cartel movement but a reduction in the number of cartels as the result of reorganization and combination in the German system of cartels.

Before the Nazi seizure of power the cartels were organized under *roof* cartels. The Reich Association of German Industry, for example, was the roof organization of all the cartels in German industry. The roof organization would lay down the general policy for all the cartels in that industry. The following is a partial list of the roof cartels that existed in Germany:

Reich Association of German Industry

Reich Association of German Wholesale and Export  
Trade

Central Association of German Banks and Banking

Central Association of German Retail Trade

Social Trade Mark Manufacturers

German official statistics indicate that prior to 1933 all domestically produced industrial raw materials and semi-finished goods, and at least half of the industrial finished-goods production, were cartelized. The Nazi government facilitated cartelization in Germany by wiping out competition almost completely and establishing compulsory cartels.

The fact that some countries legalized cartels, while others prohibited cartel agreements, has made hardly any difference in the general growth of cartels in Europe or America. Cartels may exist as registered cartels in countries with procartel legislation, while in other countries, such as England, legislation may ignore the existence of cartels and interfere with them only if the means of fighting "outsiders" assume unfair character. In countries where the formation of cartel agreements is declared to be illegal, the cartels may exist in the form of nominally harmless trade associations, gentlemen's agreements, or other tacit arrangements. The United States, one of the countries with the strongest tradition of economic individualism, was forced to legalize some forty export trade associations under the Webb-Pomerene Act as the result of organized foreign competition. These trade associations are in fact export cartels. The National Industrial Recovery Act, established during the Great Depression of the 1930's, also constituted legal sanction of cartelization.

In countries such as the United States, however, it is very difficult to estimate the over-all degree of combination. As the concentration of capital is only another side of the same problem, an impression can be gained by studying the degree of concentration of capital in the United States. To prove his point that competition has declined within the United States, President Roosevelt quoted the following statistics of the Bureau of Internal Revenue in his message to Congress on April 29, 1938:

Ownership of corporate assets: Of all corporations reporting from every part of the nation, one-tenth of 1 per cent of them

owned 52 per cent of the assets of all of them. And to clinch the point: Of all corporations reporting, less than 5 per cent of them owned 87 per cent of all the assets of all of them. Income and profits of corporations: Of all the corporations reporting from every part of the country, one-tenth of 1 per cent earned 50 per cent of the net income of all of them. And to clinch the point: Of all the manufacturing corporations reporting, less than 4 per cent of them earned 84 per cent of all the net profits of all of them.<sup>3</sup>

Elsewhere in his message President Roosevelt stated:

One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufactures where concentrated economic power is most evident—and where rigid prices and fluctuating pay rolls are general.

Similar conditions exist or existed in countries such as England, Belgium, Japan, and Italy. Concentration of capital in industry facilitates combination, and vice versa.

### *CARTELS AND PROTECTIVE TARIFFS*

Modern technology, impelling the concentration of capital and the growth of large-scale organized industry, has conflicted in recent decades with political and economic nationalism. As a result, two rather divergent reactions upon the cartel have appeared. First, many cartels, in industries with large aggregates of capital, have drawn back upon themselves and have attempted isolation. Second, the same conflict has impelled the setting up of many international cartels, which have sought to transcend restrictive political boundaries by controlling raw materials or industries over wide areas.

There is a close historical connection between the development of cartels and the establishment of a protectionist trade policy. Protective tariffs became widespread toward the end of the seventies of the last century, and this is roughly the

time when the first modern cartels made their appearance. Some authors have tried to explain the cartels as results of protectionist tariffs, while others describe tariffs as the children of cartels. There may be no necessary causal relationship at all between these two. Certain it is that the protectionist tariff policy, once established, has accentuated the growth of cartels and vice versa. The tariff is a measure to protect the home market against foreign competition and thus forms one of the fundamental prerequisites to monopoly price fixing.

Countries with cartelized industries find it very difficult to adapt their costs to any fall of prices in markets abroad. One of the more important reasons for the difficulties of Germany after 1929 was her high internal price level, which she was unable to decrease and which made it most difficult for her to compete. Price fixing in Germany extended over such a wide range of raw materials and finished goods that it became a serious obstacle against price reduction.

Furthermore, price discrimination between customers is exercised by the cartels in the international market as well as the domestic. Dumping is one form of price discrimination between the market at home and markets abroad. Hence the existence of national or domestic cartels has often been detrimental to international trade relations. The export policies as applied by the typical cartel have been designed to strengthen the position of the individual industry in foreign markets by more drastic means than an unorganized industry could apply. The tendency has been to make the cartel price abroad somewhat independent of costs. The price at home is kept high so that the goods exported can often be sold even below costs of production. In this way cartels have made it difficult to establish a smooth-working system of prices on an international scale. Cartels, like protective tariffs, have thus contributed toward an increasing economic antagonism between countries. The two reinforce each other. The import duties protect home industries from foreign competition and

the domestic price level is higher for those industries than abroad. Price-fixing policies of cartels will prevent price declines, and the protective tariff thus becomes a protection of the home cartel. Under such conditions the protective duty becomes instrumental in securing lasting monopoly profits.<sup>8</sup> High protective tariffs in combination with dumping, applied usually by strongly organized industries, force other countries to protect themselves by similar measures. Tariffs, cartels, and dumping can thus be viewed as instruments of economic policy which tend to establish and strengthen a nation's power at the expense of other nations competing on the world's markets.

### *INTERNATIONAL CARTELS*

Contrariwise, the impact of modern technology has been sufficient to force many cartels to transcend political boundaries rather than retire behind them. Thus, the same concentration of capital so evident in domestic combination has been projected upon the international scene. The growth of mass markets, mass sources of supply, and large-scale production was facilitated internationally by improved transportation and communication.

As a result of these changes in transportation the foreign commerce of the more highly developed countries increased manyfold during the last three decades of the Nineteenth Century. The new possibilities of buying and selling, due to the developments in communications, made for a relocation of production and markets. Whereas the technology had originally permitted the location of industries on the basis of the least-cost principle on a national scale, the revolution in transportation now permitted the application of that principle on an international scale. Whereas the limited size of national markets and sources of supply had limited the size of the individual producing units, mass production now became pos-



sible with vastly increased markets and the expansion of raw-materials industries in all corners of the earth.

In order to facilitate this expansion of raw-materials industries, despite the restrictive barriers imposed by nationalism, cartelization spread. While cartels were also becoming prominent in manufacturing, controls on the raw-materials level represented an especially significant development. These raw-materials cartels became both a result and a further cause of the collapse of the world-wide complementary trading system that had dominated the Nineteenth Century.

### *EARLY RUMBLINGS*

The operation of cartels in the raw-materials sphere has long occasioned considerable alarm in the United States. In the mid-1920's there was a marked awareness of this control, and it was claimed that a number of foreign raw-materials monopolies or cartels were exacting high tribute from the United States. Little action was taken, however, to minimize this alleged exploitation.

One of the few concrete results of this agitation was the movement toward development of plantation rubber in Latin America. The United States government, resentful of the Stevenson Restriction Plan, carefully surveyed possibilities of gaining independence from Asiatic sources. Henry Ford launched his initial attempt at plantation-rubber production partly out of resentment against control by the cartel. It can be concluded that the restrictive policy of a world cartel occasioned the first significant development of the embryonic plantation-rubber industry in the Western Hemisphere.

During the same period there was continued agitation against the Japanese raw-silk monopoly. Other cartels or national controls subject to extensive criticism were mercury, quinine, and tin. While Brazil had an almost complete monopoly in quartz crystals, India in mica, China in antimony, and

Canada in nickel, these situations apparently caused little anxiety.

### NATIONAL MONOPOLIES

A number of national controls or international cartels still figure prominently in the raw-materials field, several of which deal with strategic materials. Brazilian interests continue to possess virtual monopoly in quartz crystals, Canadian corporations in nickel, and Philippine producers in manila fiber. To a lesser extent, Indian production dominates the world's strategic mica industry. Yet, as in the 1920's, these monopolies have caused only occasional resentment. Their acceptance is probably attributable to the fact that in each case the source has been considered friendly, price and output policies have not been intolerable, and the respective governments have held nationalistically inspired controls and manipulations to a minimum. Although the Canadian nickel industry has been dominated by a single privately owned corporation, its securities are widely held in the United States and Great Britain, and it has been subjected to only sporadic regulation by the Canadian government. In recent years, of course, the dominance of manila-fiber production by the Philippines has caused alarm, particularly in view of Japanese seizure of the Islands.

National monopolies also exist in silk and quinine. The silk monopoly is enjoyed by Japan, and this dominance caused much alarm until silk substitutes were perfected.<sup>4</sup>

The quinine industry has also been controlled by a national monopoly known as the Kina Bureau. This control was exercised by a small group of planters in the Netherlands East Indies and two manufacturers in Holland.<sup>5</sup> Some 90 to 95 per cent of world production has been controlled by this group. Control over both price and output has been rigid, and attempts to break the power of this monopoly were ineffective prior to World War II.

The occupation of the Netherlands by German troops

eliminated the two principal quinine producers of that country as effective members of the cartel. However, the output of the principal Javanese plant was then increased and the Kina Bureau continued to function from new headquarters in the Netherlands East Indies until the Indies were overrun. As in the case of silk, development of substitutes has now rendered consuming countries less vulnerable to monopoly policy.

### RECENT CARTELS

There were also a number of international cartels still functioning in the strategic raw-material sphere prior to World War II, notably rubber, mercury, and tin. Most of these cartels became inactive during the war, although many are now in process of partial revival. Though the Great Depression forced these cartels to be somewhat more moderate in their restriction and price policies than they were during the 1920's, they were still vainly attempting to hold prices at fixed levels when they were suspended.

The rubber industry was dominated by a world cartel until Malaya and the Dutch East Indies succumbed. While this cartel was the successor of the old Stevenson plan,<sup>6</sup> it followed a more moderate course. It is claimed that the recent rubber cartel included more producers than the old Stevenson plan, was more elastic with respect to exports of rubber in relation to demand, and did not tend to drive up prices unduly. The cartel attempted to hold rubber prices above 15 cents per pound, this price being designated as the point where efficiently operated plantations could earn moderate profits.<sup>7</sup> At the request of the United States Rubber Reserve Company in 1941 the cartel temporarily increased the world productive quota to 120 per cent of theoretical capacity.<sup>8</sup>

The tin cartel was virtually suspended during World War II, although a meeting of the International Tin Committee in March, 1941, had resulted in the formal continuance of

the International Tin Cartel scheme for another five years.<sup>9</sup> It was reasonably successful in raising or at least maintaining prices.<sup>10</sup> While production was restricted, in many cases the quotas were set far above actual production levels—as in the case of Bolivia. Prices were set by the cartel at a point calculated to protect high-cost producers, hence the low-cost producers were making large profits. Despite dire predictions of exhaustion of world tin supplies, the basic difficulty of the tin cartel thus far has been a world capacity in excess of normal world requirements.

The International Mercury Cartel, dominated by Spain and Italy, has occasioned considerable resentment. This cartel, established in 1928, sometimes set the world price of mercury at astronomic levels<sup>11</sup> (see page 175) and supplied one of the prime arguments used by those favoring tariff protection of the domestic mercury industry—that local producers furnish protection against cartel price policies.<sup>12</sup> The cartel functioned actively following its inauguration, except for a period of the Spanish Civil War, and held a dominating position in the world market for mercury. With the entry of Italy into World War II, the market open to the cartel was severely limited.

### PRICE POLICY

Since most cartels have at least temporarily enjoyed a monopoly or quasi-monopoly position, their over-all output and price policies have not followed the orthodox competitive pattern. Output is usually set at a somewhat lower level than would presumably prevail under competition, and the price is likely to be somewhat higher. In cartels as in other monopoly situations, *maximum revenue* is the basic objective rather than maximum output or minimum price. The greater the competition is among various cartelized products, or the more pronounced the elasticity of demand, the less pronounced are these cartel restrictions.

The silk and quinine national controls, for example, have avowedly employed monopolistic price practices. One of the primary purposes of the quinine control was to sustain its price at around 60 cents per pound, which was admittedly above costs by an appreciable margin. The silk industry also attempted to maintain prices, with less success, thanks to the increasing consumption of rayon and other competing fibers. The rubber, mercury, and tin cartels attempted to protect the high-cost producer, with the natural result of relatively high prices. While such controls might promote certain economies and thus depress prices, this possibility is belied by the actual price policies of these cartels over the past two decades. While these policies have been increasingly moderate since 1930, there is no assurance that this temperance would continue in a world prosperous and at peace.

One other aspect of this problem remains to be explored. It is commonly, though erroneously, thought that the cartels have insured price stability on a high level. Although their policies have elevated prices to high peaks on occasion, actually cartels have often been instrumental in causing prices to be extremely erratic. Some raw materials dominated by cartels, and to a lesser extent some dominated by national monopolies, have been notorious for their price fluctuations. These erratic prices have resulted from the fact that after cartels have pushed their price and output restriction policies too far, they have sometimes suddenly disintegrated or gradually fallen apart. The cartelization process then begins all over again. The average price is apt to be quite high but the actual price varies drastically.

There are numerous examples of this phenomenon in those strategic raw-materials industries dominated by cartels. The rubber industry is particularly noted for its enormous fluctuations in price. As revealed by the accompanying table, rubber prices in the representative period from 1906 to 1931 varied from a high of \$3.06 in 1910 to a low of \$0.048 in

1931. The story of control can be deduced from this table, the 1910 and 1925 peaks being of particular significance. The former high represents the last effective efforts of the Brazilian wild-rubber control, and the latter peak resulted from the briefly effective restriction of the Stevenson plan.

First Grade Raw Rubber, Prices, London, 1906-1931 (Per Pound) <sup>13</sup>

Year	Highest	Lowest	Year	Highest	Lowest
1906 .....	\$1.50	\$1.31	1919 .....	\$ .70	\$ .40
1907 .....	1.38	.88	1920 .....	.68	.20
1908 .....	1.39	.72	1921 .....	.30	.16
1909 .....	2.22	1.26	1922 .....	.31	.13
1910 .....	3.06	1.34	1923 .....	.37	.27
1911 .....	1.74	1.08	1924 .....	.40	.17
1912 .....	1.38	.98	1925 .....	1.23	.31
1913 .....	1.09	.48	1926 .....	.88	.35
1914 .....	.72	.47	1927 .....	.47	.31
1915 .....	.99	.41	1928 .....	.40	.17
1916 .....	1.03	.51	1929 .....	.28	.15
1917 .....	.81	.53	1930 .....	.19	.07
1918 .....	.60	.50	1931 .....	.10	.048

While the fluctuation of rubber prices has been most spectacular, mercury and tin prices have also fluctuated drastically. Mercury prices over the 1913-1937 period revealed enormous variations.<sup>14</sup> During these years, the lowest average quoted price was \$40.07 per flask in 1913, and the highest average quoted price was \$127.16 per flask in 1916. The price during the 1927-1930 period rose nearly to the 1916 peak. In 1940 the price rose to \$180.00 per flask. It is notable that over much of this period the price varied sharply from year to year. All of the prices cited above are for flasks of 76 pounds.

The price of tin has also varied sharply, although the tin cartel was rather successful after 1933 in stabilizing prices.<sup>15</sup> The highest average quoted price over the 1913-1917 period was \$0.87 per pound in 1918 and the low was \$0.22 in 1932.

There were rather notable year-to-year variations until 1934, when the stabilizing efforts of the cartel began to be partly effective.

### *OUTPUT POLICIES*

The tasks of international cartels involving these and almost one hundred other basic commodities have been in the main to divide the international market among their members, to obtain uncontested home control, and to obtain price agreements in contested areas. The situation here is similar to that of the domestic cartel. Countries with limited supplies of capital and with small or unorganized industries are no match for countries with organized industries. Throughout the existence of an international cartel the struggle for a larger sales quota exists, and as soon as one member feels itself strong enough to ask for a higher quota it will do so. If necessary, it will break out of the cartel and attempt to reach its objective by itself. The history of the international cartel is thus a very dramatic one. Dissolutions in times of international prosperity and new agreements in depressions are characteristic of the existence of international cartels. Very fateful for international political relationships has been the fact that the national cartels are supported by their national governments with all the political and, if necessary, military power that can be mustered. A number of cartels have been concluded even between the governments of various countries, as in the case of the International Rubber Cartel.

### *REGULATION OF CARTELS*

The history of cartel legislation by the industrial countries seems to demonstrate certain common denominators, as well as to raise some question concerning the effectiveness of anticartel legislation in many of those nations. Legislation

dealing with cartels seems to pass through at least some, but not necessarily all, of four stages:

The first is anticartel legislation. This usually coincides with antitrust legislation. At this stage every combination for the restraint of trade is considered immoral and illegal. But the cartel movement often proves itself irresistible and grows in spite of the legislators.

The second is the making of distinctions between "good" and "bad" cartels. The initial failure of the legislators to prevent the growth of cartels results in an attempt to distinguish between agreements that are harmful and those that are beneficial to trade in general. The most important feature of this type of legislation is the attempt to distinguish between fair and unfair measures applied against outsiders in order to make them join the agreement or to drive them out of business.

The third stage is general regulation of cartels. Cartels are free to exist but have to submit to relatively strict government control, which generally involves registration, government access to books, and fixing of prices and trade practices only with the permission of the government. Cartel courts may be established, as in Germany in 1924, to which outsiders or members of the cartel can appeal against decisions made by the cartel boards.

The fourth stage is the establishment of compulsory cartels. All the entrepreneurs or corporations in a given industry may be forced by the government to join the cartel. In normal times these industries exhibit a high degree of self-government, while in times of distress the government obtains an efficient control of the entire industry through the cartel roof organizations. One may add another stage, as in countries such as Japan, Germany, and Italy, where totalitarian regimes were established. The government completes the process of compulsory organization and uses this organized and highly integrated economic system in the interests of the totalitarian state.



*APPRAISAL OF CARTELS*

Opinion is somewhat divided as to the usefulness of cartels from the general economic and social point of view. A minority accepts the view that the days of competitive capitalism are over and that the trend is for an organized, cartelized, planned economy. The majority of economists in America apparently consider such controls and such elimination of competition harmful to the economic and social structures of both the country and the world. Much argument on both sides is drawn from experience under the National Industrial Recovery Act, a form of domestic cartel control modeled after the codified organization of the steel industry, supported by labor unions, and carried through by the government. It was successfully opposed, mostly by farmers and small and medium businessmen.

The defense of cartelization, at least under government control or direction, involves several claims. The primary arguments advanced for recognition and control of cartels follow:

First, the combination and concentration of industry is an irresistible trend. In modern industrialized countries the economic interaction is not between individual entrepreneurs and consumers, but between collective organizations such as organized industries, labor unions, and government agencies.

Second, the trend towards combination is a result of the process of concentration of capital, large-scale industry being superior with respect to production up to the point of optimum size. Opposition to large-scale industry would compare to the hopeless opposition put up by the English machine breakers at the time of the Industrial Revolution.

Third, a number of industries of national and world importance consist in the main of only a few enterprises, each employing hundreds of thousands of workmen. Competition cannot be allowed to end in the failure of one or more of

those gigantic enterprises. This imperative means that competition has to be restricted, either by business itself or by the government.

Fourth, until political nationalism is persuaded to relinquish sufficient sovereignty to make possible a truly planetary economy, a set of cartels will function at least as a stopgap. Thus it is argued that cartels are an interim phenomenon, a function of political, social, and economic lag.

Economists trying to prove the beneficial effects of cartels on international relations have perhaps had an even more difficult problem than those defending domestic combinations. The cartel experts of the League of Nations in 1931<sup>18</sup> failed to find international cartels mitigating nationalistic antagonisms. They did agree, however, on the necessity of giving the international cartel movement a free course, and expressed their belief in the beneficial functions of international cartels if properly managed.

Those who oppose cartels on the domestic or international level, or both, assert that cartels lead to dislocation of trade and distorted allocation of the factors of production. More specifically, this group advances seven points:

First, cartels tend to exploit a market situation regardless of the interests of the whole economy. Profits are made and maintained in times of economic crises at the expense of the unorganized industries and consumers, who in turn are subjected to even more violent business fluctuations. In this respect cartels are not only a risk insurance for their members but also an instrument for shifting the costs of depressions to unorganized groups.

Second, inasmuch as the prices of cartelized industries are maintained at high levels during depression, one of the most effective ways of overcoming a depression is abandoned and the depression is prolonged. A stabilizing effect on prices might conceivably be achieved by cartelizing all prices, but

this stability will not be achieved by an attempt to eliminate price fluctuations only among some of the commodities.

Third, high prices are usually maintained in the interests of the weakest members of the cartel, with the consequence of preventing the elimination of inefficient producers. The costs of closing inefficient plants are borne by the other members of the cartel, who compensate themselves by raising the cartel price. Cartelized industries are, for this reason, usually overcapitalized, and new capital-saving innovations are resisted.

Fourth, under cartel conditions a substantial part of income becomes misdirected. Investments of outsiders are often made to threaten the position of the monopoly, regardless of the capacity of the market. Strong members of the cartel may overinvest in order to obtain a greater quota. Investments are often made not merely in response to the market but rather to satisfy individual interests.

Fifth, the location of industries may be distorted, at least for considerable periods, by the degree of cartel or monopoly control. All business, whether competitive or monopolistic, is presumably carried on primarily for profit, so that cost considerations heavily influence any firm. The monopolist, however, has advantages that enable him to defer migration longer than he could if competition prevailed. The monopolist who has sufficient control over supply to enable him to control price may keep his price high enough to let him operate in a relatively unprofitable location over a long enough time to permit the liquidation of his local investments in an orderly manner. In a competitive industry, on the other hand, the choice is not between high profits and low profits but between profits and losses. In the long run identical adjustments might be reached, but in the short run, monopolistic industries are apt to respond more slowly than competitive industries to migrational influences. In agriculture, those who produce for a protected local market are likely to

shift to other types of farming more slowly than those who produce for a competitive general market. Among the human services, the most highly specialized (and therefore least competitive) producers are likely to be the least mobile. Thus cartels may facilitate the prolongation of high-cost production and the freezing of miscalculations.

Sixth, a cartelized industry closes its doors to newcomers. Economic opportunity decreases or vanishes altogether, and societies tend to become permanently stratified in classes. This economic and social caste structure might also contribute to the frustration of technological innovation.

Seventh, cartels, with their pooling of economic resources, become powerful economic and political factors, nationally and internationally. They do not limit themselves to economic control but tend to form pressure groups and acquire control over means of education and propaganda. They exercise a disproportionate influence in the shaping of national and international policies.

It is asserted that international cartels have exhibited little that is constructive in respect to international peace or stable trading relationships. They are, in effect, truce arrangements concluded at a certain stage of the international economic struggle. Advantages such as exchange of patents or standardization of trade conditions must be balanced against distortion in output, prices, and trade caused by international cartels.

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## CHAPTER 8

# UNEMPLOYMENT AND A WORLD ECONOMY

UNEMPLOYMENT is the central economic problem of the Twentieth Century. Like other problems, it has been aggravated and made more difficult of alleviation by the world impasse described in previous chapters. Although the mature industrial nations have been in need of foreign as well as domestic investment outlets, such outlets have been rendered hazardous by the lack of world-wide social institutions and understanding. Likewise, the dominance of extreme political and economic nationalism has frustrated full realization of the enormous potentialities of international capital movements. Localism has counteracted the extraordinary improvements in modern technology that made it possible for the first time in human history to develop fully the latent resources of the world. A declining rate of population growth in older industrial areas, coupled with differential rates of growth, has further undermined the traditional complementary trading system and increased the problem of achieving full employment. In sum, social lag, integral nationalism, and population trends have made difficult a basic remedial program. Nations have sought to inoculate themselves against the ravages of unemployment, not realizing that such a policy makes more grievous the very problem it is designed to alleviate.

The great problem of unemployment is intimately related to the problem of achieving and maintaining world economic organization. It is the purpose of this chapter, therefore, to indicate briefly the nature and causes of unemployment, and

to show how unemployment is related to the operation of the world economy.

There are three principal types of unemployment: first, seasonal; second, frictional; and third, cyclical. *Seasonal unemployment*, though significant as a cause of idleness, is not of direct and special interest in connection with problems of the world economy. Hence it will be ignored in the following discussion, which will emphasize frictional and cyclical factors.

### FRictionAL UNEMPLOYMENT

*Frictional unemployment* is that which occurs through inability to transfer resources quickly from one use to another in response to changes in demand, in supply, in technology, or in organization. It is due to the fact that a period of time is usually required between the discharge of a factor from one productive employment and its absorption in another. The transfer can often be accomplished only through a process that is exceedingly slow and laborious. For example, the transfer of workers from one employment to another involves the modification of habits, the development of new skills, the geographic migration of families with attendant separation from friends and from familiar surroundings, and the seeking for new jobs. The transfer of capital may require the physical movement or remodeling of those existing capital goods which can be successfully converted to new uses; it may also compel the gradual depreciation—without replacement—of that capital which is useful only in declining industries. Similarly, the transfer of land from one use to another may await either depreciation of the immobile capital attached to the land, or the reparing of land into larger or smaller areas, or the “improvement” of the land by grading, drainage, or fertilization. In short, the process of transferring resources from one industry to another requires time—occasionally only a few hours or days, but often years or even decades.

Thus, in a world where the existence of change necessitates the re-allocation of factors, a certain amount of frictional unemployment appears to be inevitable. The precise amount, however, will depend greatly upon the character of the economic system. In general, the more extensive the administrative agencies for bringing resources and jobs together, the less the friction—that is, the shorter the period of time required for effecting the transfer of resources and the less the frictional unemployment.

The transfer of laborers, land, or capital goods from one use to another may be necessitated by a great number of different changes—particularly changes in the relative demands for various goods, in the relative supplies of different factors, and in technical methods of production. Since frictional unemployment is due primarily to change, it becomes obvious that change will often be opposed on grounds that it will lead to unemployment. Witness the well-known resistance of workers to the introduction of new technical methods.

This fear also explains in part the tendency of nations to insulate themselves, by means of trade restrictions, from changes that may occur in other parts of the world. It is felt that such changes may affect the demand for domestic products, or the competitive relations between foreign and domestic producers, or the terms on which imported goods are supplied, and consequently may necessitate a re-allocation of domestic resources and result in frictional unemployment. Governments have frequently been willing to sacrifice (in the long run) the gains from international trade in the effort to secure a degree of protection from changes originating abroad. The desire to avoid change and its accompanying dislocations appears even more clearly in the marked reluctance of nations to remove or lower trade restrictions, once such barriers have become well established. Dropping the barriers means that certain protected industries are faced with the rigors of



foreign competition and that they may be forced to curtail output. Although new foreign demands for other domestic products may ultimately take up the slack, there is no denying that the period of adjustment may involve serious unemployment, the destruction of capital values, and the disappointment of expectations of profit.

The seriousness of frictional unemployment probably becomes greater as the economy becomes more complex and its parts become more specialized and interdependent. Thus the problem is even greater in a highly differentiated world economy, since in such an economy resources might be required to move greater distances and to surmount more troublesome, physical and cultural barriers than in a relatively simpler national or local economy. Therefore, the need for a conscious world organization to facilitate the transferring of resources is more urgent in a complex world economy than ever before. The development of distressed areas and stranded populations would otherwise be almost inevitable in the face of changes in demand, in the supply of resources, and in technology.

### CYCLICAL UNEMPLOYMENT

In analyzing the role of *cyclical unemployment* in international economic relations, it is necessary first to explain the nature of such unemployment. To attempt to do this thoroughly and in detail would be a diversion from the principal pursuits of this book. Perhaps, however, it will be possible to sketch in a very few pages enough of the outlines of the theory of unemployment to provide a foundation for later analysis.<sup>1</sup> In doing so, it will be convenient to treat the subject in several sections: first, the *circulation of money* and its effect on income; second, *saving and investment*; third, the declining *marginal productivity of capital*; fourth, the possi-

bility of *equilibrium* at less than full employment; and fifth, the problem of alleviating cyclical unemployment.

### THE CIRCULATION OF MONEY AND ITS EFFECT ON INCOME

In the modern economy, three principal types of expenditure are involved in the process of producing the current output of the community: first, payments by individuals to business firms for goods, services, and investment; second, payments by business firms to individuals for the use of the factors of production; and third, payments by business firms to other firms. These we shall call *productive expenditures*.

Payments by individuals to business firms are those involved in the expenditure of income. Income may be spent by the direct purchase of goods and services and by the purchase of securities, in which case the income is loaned to someone else to be used in buying goods and services. If the income is not expended in either of these two ways, then it must be *hoarded* in the form of cash or bank deposits.

Payments by business firms to individuals constitute payments for the use of land, capital, and labor, any residue devolving upon the owners as profits or dividends.

Payments by business firms to other firms are those necessitated by the fact that production is not fully *integrated*, several or many separate firms cooperating in the production of any given good. If all lines of production were completely integrated, so that each single firm were wholly responsible for the entire production of its particular product from the very earliest stages until it is ready for final use by the ultimate consumer, then no payments between firms would be necessary. Each firm would construct its own buildings, manufacture its own machinery and tools, extract its own raw materials, provide its own sales outlets, and so on. Thus, no payments between firms would be necessary, and all expendi-

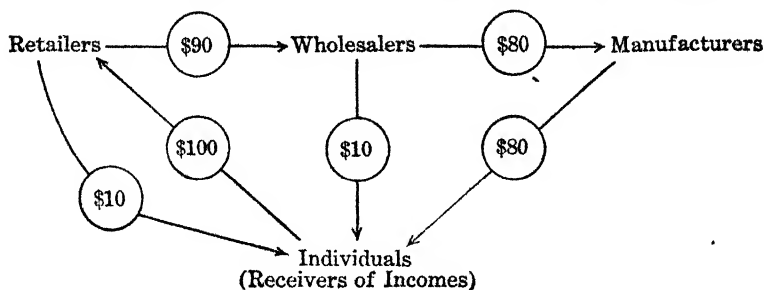
tures would be of the first two types. To the extent, then, that production is not integrated, payments between firms are necessary. In the actual world, the production of raw materials, manufacturing, the production of machinery and tools, the construction of buildings, transportation, and selling are each carried on, with reference to any given product, by separate firms. Thus, in passing through the various stages of production, most products are passed along from one firm to another many times before they actually reach the ultimate consumer. Hence, payments amounting to many times the value of the finished product are necessary, because of the way in which production is organized, in bringing any particular good through the productive process.

It is not alone on the side of physical production that payments between firms are made; they are also necessary on the financial side in passing saved funds along from individuals to the firms which require capital. For example, securities issued by business firms are often passed along through large investment banks to small investment houses, and then to the ultimate purchasers. Or they may be held by insurance companies and investment trusts, other securities issued in their place being sold to the general public. In short, expenditures amounting to several times the volume of saved funds are normally necessary before those funds reach the business firm which wishes to expend them for (invest them in) goods or services. If there were complete integration on the financial side so that each business firm sold its own securities directly to individual savers, then the volume of expenditures necessary in passing funds along from savers to investors would be equal to the amount invested. Similarly, any increase in integration on the financial side would reduce the amount of expenditure involved in a given amount of investment. To sum up, the volume of payments between firms that is necessary in carrying on a given money volume of production is dependent upon the nature of business organization and is a

function of the degree to which production is integrated.

The flow of production expenditures in the economy is, in the ultimate analysis, fundamentally two-directional: first, from individuals to business firms in payment for goods and services, and second, from business firms to individuals in payment for the use of the factors of production. The two-directional nature of expenditure is obscured by the fact that a large portion of total expenditures are made by firms to other firms; yet it can be seen clearly if we trace the circulation of a given expenditure of income through the economy. Suppose that a given individual expends his income during a given month for commodities he expects to consume. The money is first paid to retailers who pay part of it to wholesalers, part of it to other firms for supplies, equipment, and the like, and the balance as income to the owners of the factors of production employed by the retailers. Of the amount received by the wholesalers, part is paid to manufacturers, part to other firms for supplies and equipment, and the balance to the owners of the factors of production employed by the wholesalers. Of the amount received by the producer of raw materials, part is paid to other firms for supplies or the like, and the balance to the owners of the factors of production. Of the amounts paid all along the line to other firms for supplies, equipment, or the like, part was paid to still other firms and part to the owners of the factors of production employed by these firms. In short, as the money is passed along from firm to firm, part of it is diverted at each transfer and paid as income to the owners of the factors until finally the entire amount becomes incomes of individuals, and is made available for expenditure and other circulation. The circulation of the entire economy can thus be viewed as a continuous stream of payments from individuals to the business community and back again to individuals. This pattern of circulation is illustrated in the accompanying diagram in which it is assumed that there are just three types of firms

engaged in the production of each good, retailers, wholesalers, and manufacturers; and that the only expenditures in the economy are those from individuals to retailers, from retailers to wholesalers, and from wholesalers to manufacturers, and from each of these types of business firms to individuals for



the use of the factors employed by them. Here the total money incomes of individuals amount to \$100: \$10 received from the retail trade, \$10 from the wholesale trade, and \$80 from manufacturing. In the productive process, the goods are sold by the manufacturers to the wholesalers for \$80, by the wholesalers to the retailers for \$90, and by the retailers to individuals for \$100. Total expenditures of \$370 are required for each \$100 of money income paid out. It can be clearly observed in the diagram that every dollar paid out by individuals returns after an interval to individuals in the form of income. Thus in the operation of the system there is a continuous stream of expenditures emanating from individuals, circulating among business firms, and returning to individuals. Any change in the rate at which payments are made, any point in the productive system is therefore likely to bring about a corresponding change in the amount of income paid out to individuals.

It is as important to the economy that the circulation of money be unimpeded as it is to the living organism that the circulation of blood be unobstructed. Any variation in expenditures at any point in the economy will influence signifi-

cantly the health of the entire economic system. Expenditures at each point in the circulating flow of money are dependent upon receipts at that point. And any failure of receipts at a given point will not only affect expenditures at that point but will also affect receipts at the subsequent point, and so on, until the effects are felt throughout the system.

A change in the amount of money income paid out may take place in two ways (or as a combination of the two). It may take the form of a change in the prices of the factors and in the prices of goods, leaving real income unaffected; or it may take the form of a change in the volume of physical production and employment, thus reducing real income; or it may occur partly as a change in prices and partly as a change in the level of employment.

The precise character of a change in money income depends in part on the degree to which prices—especially wages—are flexible, in part on the direction of the change, and in part on the extent of prevailing unemployment. If prices were perfectly flexible, the system could adjust immediately to a change in the volume of expenditures without appreciable influence upon physical output and employment. If, however, prices are relatively inflexible, a decline in productive expenditures will inevitably produce a reduction in employment, since it will not be possible to carry on as much production at existing prices with a reduced flow of money. In like manner, if prices are inflexible, an increase in expenditures will cause an increase in employment, except that as the system approaches capacity further increases in employment become technically more and more difficult, so that a proportionately larger part of the increased demand will be exerted upon prices. The resulting price increases will be made possible by the fact that prices are generally more flexible upward than downward. In most modern capitalist countries, prices are, in fact, somewhat "sticky"; this observation appears to be increasingly true in both the factor-of-production and

commodity markets, especially with the growth of labor organization and imperfect competition on the part of both buyers and sellers. Hence variations in expenditures usually lead to changes in employment except that increases in expenditure when a system is at or approaching capacity usually lead to price increases.

### SAVING AND INVESTMENT

Having shown that the level of income and employment is related to the flow of money through the system, we have now to explain the conditions under which changes take place in the level of expenditures. This undertaking leads us to a discussion of the process of saving and investment.

*The maintenance of full employment requires that the total money demand for currently produced goods shall be sufficient to absorb, at current prices, the supply of goods that can be produced with the available land, labor, and capital.* In other words, the problem of cyclical unemployment arises as a result of a failure of demand. In explaining the causes of cyclical unemployment, therefore, it is necessary to discover why or how demand becomes inadequate. This undertaking likewise leads us to a discussion of the process of saving and investment.

Individuals usually divide their incomes into two parts: one part they use to purchase consumer goods and the other they save. It is quite clear that the portion which is used to acquire consumer goods is spent and flows into the productive circulation, thus creating a demand for the production of goods and services. It is not certain, however, that the portion which is saved will also be spent productively. If the saved funds are invested and used to buy newly produced capital goods, they then flow into the productive circulation and also create demands for employment of the factors of production. But if money is saved by being withheld from con-

umption purposes and yet is not invested, then the money disappears from the stream of payments and, in fact, becomes in idle cash balance—a *hoard*. The aggregate demand for current output is thus reduced, and the system suffers from a sort of malnutrition somewhat as the human body would suffer from a stoppage in the flow of blood. Hoarding occurs, then, when individuals save without investing all of the saved funds, or, generally, when the total volume of savings exceeds the total amount of investment.

In a modern economy, with its complex financial institutions, it is sometimes difficult to distinguish those uses of saved funds which result in investment from those which result in hoarding. The individual saver often relies on such middlemen as investment banks, savings and loan associations, or insurance companies to do his investing for him. For example, an individual may pay a premium on a life-insurance policy, and the insurance company may buy the bond of a municipality which finally uses the money to build a new bridge. Or an individual may buy a share of stock from a local investment house which in turn has purchased the share from a New York investment underwriter, who advances money to the issuing corporation for building a new plant. In such cases as these, the saved funds are invested, since they are used to buy newly produced capital goods—namely, the new bridge and the new plant. On the other hand, if the individual deposits his savings in a commercial bank, they remain as mere bank deposits subject to check (that is, they remain money) and are not thereby used to buy newly produced capital goods. A complication arises here. The deposit of funds in a bank increases the reserves and therefore the power to lend of *that bank*, and so it is frequently supposed that funds so deposited are invested providing the bank makes new loans on the basis of the additional reserve. But this view is mistaken, however, applied to the entire economy—since, assuming a given quantity of reserve money in the sys-



tem, the increase in reserve by any one bank must be offset by a corresponding loss in reserve and in lending power by other banks in the *system*. There is nothing in the deposit of money in a bank which in itself affects the amount of reserve available to a banking system or the volume of loans which that system will make.<sup>1</sup> Moreover, the use of saved funds either to buy land and previously produced capital goods or to pay off debts does not by itself constitute investment. Whether such funds flow into the productive circulation depends entirely upon whether the recipients of the money use it for consumption and investment purposes or hoard it.

### DECLINING MARGINAL PRODUCTIVITY OF CAPITAL

There still remains the question of why, or under what conditions, individuals will choose to save without investing. So long as an individual saver has access to investment outlets in which he expects to be able to maintain his capital and secure some return in addition, he will in most cases be willing to invest. Hoarding will not be attractive to him, since it involves merely the preservation of his funds (assuming safe banks and stable money) without any additional return. Moreover, profitable investment outlets will exist so long as the scarcity of capital in the system is such that its *marginal productivity* (product created by additional units) is high, after allowance for *risk*. However, as saved funds are invested year after year, the total stock of capital tends to fall. As more capital is created, relative to a fairly constant or slowly increasing stock of land and labor, the return on additional units of capital dwindles. Capital becomes relatively abundant while land and labor thereby become relatively scarce. This process is described by such terms as *diminishing returns* or perhaps *nonproportional outputs*, and it can be seen in operation throughout the economy. If additional men are added in a factory, with fixed capital (plant and machines)

and land, the product of the men will increase more than proportionately as some men are added, taper off and increase less than proportionately as still additional men are hired, and conceivably the total product of the whole labor force might be diminished if too many men were hired. (If this principle did not operate, it has been provocatively stated, the world's food supply could be raised in a flower pot.) Anticipated productivity declines, risk increases, and the inclination to invest gives way to caution.

Some of the factors which have bulwarked the marginal productivity of capital are: first, relatively rapid changes in technology or in demand resulting in the need for new types of capital goods; \* second, growth of population requiring more houses, public-utility facilities, and the like, and increasing the quantity of labor available to be combined with capital; third, discovery of new natural resources and extension of land frontiers; and fourth, destruction of part of the existing supply of capital goods through tornadoes, floods, or (especially) wars. Thus, the marginal productivity of capital may be regarded as a resultant of two sets of forces. On the one hand, current savings and investment are constantly tending to increase the supply of capital and to depress marginal productivity; and on the other hand, new inventions, population growth, territorial expansion, and war have constantly tended to raise marginal productivity. The precise balance of these forces varies, and statistical evidence on this score is incomplete.<sup>3</sup>

Experience has shown that in a wealthy capitalist country where a large surplus of productive power exists over and above that needed for base subsistence, where inequalities in the distribution of income make for enormous surpluses of income in the hands of certain individuals, where insecurity prompts people to save for the rainy day, where social atti-

\* There is some doubt as to whether changing technology and demand always leads to a rise in the marginal productivity of capital, since it tends to increase the risk of investment.

tudes strongly favor saving as a way to prestige, and where the banking system is able to create enormous amounts of credit, the rate of saving becomes enormous. For example, in the United States during the period 1919-1929, net capital formation totaled \$95.5 billion or an average of about \$8.7 billion per year. The total capital in existence at the beginning of the period was about \$188 billion (excluding land). Thus, in the short period of eleven years the total capital stock of the country was increased by slightly more than 50 per cent, and it would have been possible at this rate to double the capital supply in about 22 years.<sup>4</sup> This process has been accentuated since the late 1930's, and the current supply of loanable funds, or potential capital, is enormous.

This capital formation was made possible by several sources of supply. The supply of capital can come from current savings (savings of individuals, undistributed corporate profits, and business reserves) and from monetary sources (net increases in the money supply, largely in demand deposits and currency outside banks, and net reductions in "idle money," for which no use can be found). All of these sources are of considerable importance, although a \$46.6 billion net increase in idle money over the 1919-1945 period, \$32.7 billion of this in the years 1942-1945, partly offset the \$83.1 billion dollars net increase in money supply.<sup>5</sup> Of this \$83.1 billion net increase in money supply, \$54.1 billion was in the 1942-1945 years.

Over the 1919-1945 period, current savings constituted the bulk of supply of capital. Business reserves contributed \$195.6 billion, only \$34.1 billion being supplied during 1942-1945. Undistributed corporate profits aggregated a net supply of \$18.5 billion, the 1930-1938 deficit being \$28.3 billion, the 1942-1945 surplus being \$19.8 billion. Savings of individuals over the 1919-1945 period aggregated \$271.1 billion, of which \$135.7 billion was supplied during 1942-1945. The capital supplied from these various sources was used for producers'

durable equipment, nonresidential construction, net increase in inventories, net exports, residential construction, net increase in consumer credit, and government deficits.

Two of the factors which contributed to this enormous capital supply were sporadic increases in the money supply and high levels of business activity. These produced high levels of individual income and substantial business reserves and undistributed corporate profits. A dominant factor in regard to heavy individual saving, however, has been the concentration of income. The situation continued to prevail in 1945, at the close of World War II, as revealed by the accompanying table.

Income, Savings, and Liquid-Assets Holdings, United States, 1945—  
Distribution According to Spending Unit Classes <sup>6</sup>

Spending unit class	Per cent of national total		
	Money income	Liquid-assets holdings	Net savings
Top 10% . . . . .	29	60	60
Second 10% . . . . .	16	17	22
Third 10% . . . . .	13	10	14
Fourth 10% . . . . .	11	6	9
Fifth 10% . . . . .	9	4	6
Bottom 50% . . . . .	22	3	-11
	100	100	100

*Note:* "Liquid assets" are United States Bonds and bank deposits. "Savings" are determined from net changes in assets and indebtedness, exclusive of currency holdings and indebtedness incurred for consumption purposes. "Net savings" are savings less "dissavings" (consumption expenditures in excess of income). "Spending units" are: (1) families pooling incomes and expenses, and (2) roomers and individuals not in (1). Members of the armed forces, citizens living abroad, institutional population, and some minor groups are excluded.

## RESULTING UNEMPLOYMENT

When saving occurs at such a pace as this, it is obvious that the return to capital will tend steadily to fall—barring

unusually strong and persistent forces to bolster it up. When saving and concomitant investment occur at such a rate as to force the marginal productivity of capital to lower and lower levels, a point is finally reached when it no longer pays savers to invest their funds and when large numbers of them will prefer hoarding to investing. When this impasse is reached, the productive system is affected sharply by the resultant contraction of expenditures and of demand throughout the economy.

The resulting wave of pessimism may cause individuals to hoard and businesses to "build up their cash positions," when otherwise they would have invested their surpluses. But these psychological manifestations are resultant or accentuating—not casual. The basic explanation of the contraction is the decline in the marginal productivity of capital due to the previous rapid rate of saving.

Individuals now find their incomes curtailed due to the partial or complete unemployment of their labor and property, and so they are no longer able to afford to save at the old rate. This reduction in rate of saving, as the levels of income and employment fall, is in turn a prelude to a new equilibrium for the economy, although very possibly an equilibrium *at less than full employment*. The equilibrium is reached when employment, incomes, and hence savings are reduced sufficiently so that whatever saving does occur can find investment outlets that are acceptable to the individual savers. At this point, all saved funds will be flowing into investment, and hence further contraction of employment will be unnecessary. The system will then continue at this level until subsequent deterioration of the investment market or decreasing disposition to consume still further reduces demand and depresses employment, or until the opening up of new investment opportunities or an increase in the disposition to consume stimulates demand and increases employment.

Hoarding, or the disequilibrium between saving and in-

vestment, is only one of the causes of unemployment. Monetary deflation might have the same effect, since it would destroy purchasing power that might otherwise be used in the productive circulation. Reductions in the supply of money are, however, often no more than accessory factors in precipitating unemployment and dépression. Similarly, a great wave of speculation, involving the use of large quantities of money in buying and selling land or previously issued securities, may result in withdrawing money from productive circulation, and thus help to bring on the crisis. (This latter is likely to have secondary importance since the banking system will usually advance a large share of the money required for carrying on speculative buying and selling of pre-existing assets.)

### *SUGGESTED APPROACHES*

This is not the place to discuss the many plans and programs—tried or untried—for overcoming cyclical unemployment. But it is necessary for our present analysis to understand the basic essentials of any approach to the unemployment problem.

Very briefly stated, the primary cause of cyclical unemployment is an excess of saving over investment. This disequilibrium between saving and investment is due primarily to the fact that the steady accumulation of capital depresses the marginal productivity of capital until further investment becomes unattractive to savers who then prefer to hoard rather than invest their surplus funds.

This opinion about its cause suggests that there are two possible solutions to the problem of cyclical unemployment: first, to discourage saving, thereby encouraging spending for consumption; or second, to stimulate investment. The first of these solutions might be accomplished by highly graduated taxation, by expansion of social services, or by other means, and the second by taking measures to raise the marginal pro-

ductivity of private capital, or through direct investment by the government to offset the decline in private investment.

In practice, the problem is usually viewed as one of finding new investment outlets for saved funds so that saving can proceed without leading to a failure of aggregate demand. Accent on discouraging saving means, of course, an ultimate ceiling on a nation's productive capacity. It is at this point that we may finally begin to explore the relation between cyclical unemployment and the world economy. It is apparent that investment outlets are more numerous on a world basis than when restricted behind domestic boundaries. Indeed, excessive preoccupation with domestic investment has made the problem of full employment unduly difficult. Yet, paradoxically enough, the ravages of world-wide unemployment have accentuated the very nationalism which has led to restrictions on international trade. These restrictions, in turn, have rendered the servicing and repayment of foreign investments difficult if not impossible. Thus, a vicious circle has prevailed, severely limiting efforts to utilize world as well as domestic investment opportunities.

### *CYCLICAL UNEMPLOYMENT AND TRADE BARRIERS*

The existence or possibility of cyclical unemployment is a prolific source of nationalistic restrictions on trade. Governments all over the world have been forced to become acutely conscious of variations in employment and to take responsibility for the problem. When unemployment is imminent, governments are expected to ward off the evil; and when unemployment strikes, the public invariably looks to government to solve the problem. Officials have learned, painfully in some cases, that their tenure of office is intimately related to the level of employment and to their "success" in handling the problem of economic crisis. Consequently the pressure is

almost irresistible for governments to attempt some program of positive action in combating the evil. More often than not, such action is oriented toward the short-run interests of particular nations rather than toward the long-run interests of the world economy as a whole. In attempting to "solve" the unemployment problem, individual nations are prone to adopt policies designed to stimulate exports and restrict imports, and in case such policies are already in effect, they are likely to accentuate the degree of public control over foreign trade. Such policies seem momentarily attractive for a number of reasons.

A government may adopt policies designed to stimulate exports, quite understandably, because employment will be thereby created in the industries producing exportable goods. Such policies, if successful, mean that inadequate domestic demand will be partly supplemented by a newly created foreign demand. In order to accomplish the objective of increased exports, a country may resort to bilateral trade agreements with other countries, or it may depreciate its currency in order to render the domestic market temporarily more favorable for foreign buyers. Pressure may be exerted on colonial possessions to buy in the mother country, or outright subsidies may be offered to exporters in order to provide additional incentive to export industries.

The desire to curtail imports may be explained in several ways. We shall comment on three of them. First, it may be thought, quite mistakenly, that the reduction of imports will automatically increase the total amount of production and employment available in the country—on the ground that goods formerly produced abroad can now be produced domestically. Such a view overlooks the fact that curtailment of imports must necessarily reduce the ability of foreigners to purchase domestic exports, so that the employment gain resulting from the reduction in imports will be offset by at least a corresponding employment loss arising from the de-



cline in exports. The fact that this view is based upon specious reasoning, however, does not prevent it from becoming at least one basis for the adoption of restrictions upon imports during periods of depression.

Second, the curtailment of imports may be motivated by the desire to gain a temporary spurt of investment during the period when the newly protected industries are expanding to take advantage of their opportunities. For example, if a country which has long imported most of its sugar places heavy duties on the further importation of the product, the domestic sugar industry will undoubtedly expand. This expansion will call for the production of new specialized farm equipment and new refineries, as well as for the training of new labor supplies. Altogether, then, during the period of transition, new investment outlets are thus provided and they temporarily mitigate unemployment.

Third, the curtailment of imports may be undertaken in order to achieve national self-sufficiency. This maneuver is often performed, to be sure, in preparation for war, but that is not the only possible reason. Another possible purpose is to insulate the domestic economy against outside influences that might lead to unemployment. So long as the economy of a nation is based upon the export of surplus products in exchange for imports, that economy will be vulnerable to any outside influence which affects the demand for its exports. Any reduction in demand for its exports will reduce employment in domestic industries and at the same time will reduce the ability of the country to purchase the imports upon which it depends. Consequently, it is not surprising that countries which have experienced the international repercussions of economic crises are sometimes tempted to seek national self-sufficiency as a means to stability.

The policy of self-sufficiency also has another explanation. A country which has a large import trade will find great difficulty in carrying out internal measures for solving a do-

mestic unemployment problem. Any policy which it adopts to increase domestic aggregate demand will tend to be frustrated by the dissipation of a part of that demand in the purchase of foreign products. A country like England, which depends on a large volume of imports, affords an example. When it undertakes to stimulate domestic employment through, let us say, public works projects, a large part of the increased demand that is thereby generated will be used to buy foreign products and will stimulate employment abroad rather than at home. A country in this position may be tempted, therefore, to curtail imports as a way of retaining newly generated purchasing power.

### *ROLE OF FOREIGN INVESTMENT IN ALLEVIATING CYCLICAL UNEMPLOYMENT*

The aforementioned policy of isolation or restriction tends, in the ultimate analysis, to be futile or self-defeating. Such a program of restrictive economic nationalism pursued by a country which maintains a capitalistic organization is likely to actually accelerate crisis and chronic underemployment. It is true that the destruction of physical capital through war or the destruction of capital values through obsolescence engendered by invention may lead to increases in the marginal productivity of capital such as to make possible a level of investment calling for temporary full employment. It is doubtful, however, if the Western countries can count on the growth of population and the settlement of new lands (within the national boundaries) to keep the marginal productivity of capital up to the levels that prevailed during much of the Nineteenth Century. Hence the Western capitalistic countries are faced with two alternatives. On the one hand they may arrange for ever-increasing public outlets for internal investment, largely unprofitable in the pecuniary sense. In addition, they may curb the propensity of their

citizens to save, perhaps through a more equal distribution of income, and thus attempt to solve the unemployment problem by modifying the capitalistic system. On the other hand, they may seek to maintain the essential features of capitalism, with its enormous rate of saving and with its insistence on pecuniary profitability as the prerequisite to investment, and look not only at home but also abroad for the "new frontiers" to provide capital outlets.

The prerequisite to full employment in a capitalist country is that there should be adequate investment outlets to absorb the entire volume of savings. So long as the opportunities for investment open to the citizens of a country are limited to the home market, the annual percentage increase in the supply of domestic capital will be relatively rapid. As a result, the marginal productivity of capital will tend to decline speedily and the country may soon have on its hands a surplus of saved funds that cannot find profitable investment outlets. If, however, investment opportunities can also be found in foreign lands, the surplus funds can be used to purchase newly produced capital goods destined to be shipped abroad, and the imminent failure of aggregate demand can be staved off.

The fact that such imminent failure can be staved off does not mean, of course, that foreign investments, unaccompanied by domestic private and/or public investment, can maintain domestic full employment. Nor does it necessarily follow that foreign investment constitutes a permanent solution, for foreign as well as domestic investment ultimately reaches diminishing returns. It is obvious, however, that profitable investment outlets are more limited in a closed, self-sufficient domestic economy than in a world economy. Not only are such outlets created by the actual investment opportunities abroad, but they are also opened at home through the better use of resources and the higher scales of living made possible by international trade.

There are only a few countries, notably the United States, where the problem of surplus capital is now acute. Much of the remainder of the world is poverty stricken, with relatively little capital, untapped natural resources, poorly developed technical skills, teeming populations, and low scales of living. Thus most of the world has been virtually untouched by development along the lines of Western industrial civilization, and therefore offers at least potential opportunity for capital investment.

Much of this investment is likely to be in embryonic industrial areas, since the Industrial Revolution is just now beginning to assume truly world-wide proportions. The Twentieth Century rise of Japan, European Russia, Siberia, Canada, and Australia as industrial powers may well be complemented by industrial concentrations in India, China, and Brazil. Such industrialization may ultimately alter the channeling of world trade, as well as its composition. Yet there is no evidence that either the volume or the significance of world commerce would thus be diminished. (The thriving trade between the United States and industrial, competitive Europe illustrates this fact.) Indeed, the very servicing and repaying of foreign investment necessary to such development would insure an enormous volume of trade.

### *RISK AND FOREIGN INVESTMENT*

Investment in the so-called backward areas of the world is, however, extremely risky. The labor supply is often not educated to or disciplined in modern industrial techniques, and is inefficient and undependable. The governments of these regions are sometimes unstable and corrupt, so that contracts may not be rigidly enforced, bribery and political meddling may result in concessions and privileges, primitive modes of taxation may be imposed upon foreign enterprises, and so on. Moreover, such governments often do not have

what foreign investors consider a decent respect for private property, and they are likely at some time to decide to expropriate the foreign property, or suddenly to withdraw the foreign concessions. Furthermore, investors may be diffident about sinking their capital in foreign areas, because they are not sufficiently acquainted with conditions, customs, and laws. For all of these and other reasons, investors in the so-called advanced countries are extremely reluctant to invest abroad unless these risks and uncertainties can be significantly lessened. Since World War I, the emergence of acute national self-consciousness in these undeveloped areas has measurably increased the risk factor involved in the traditional type of foreign investment.

### *ONE ROLE OF IMPERIALISM*

One possible way to reduce the risks and thus open up these territories to the advantages of Western civilization is for the government of the capitalist country to exercise political control over the backward territory. In that way the native labor problems can be solved, contracts can be enforced, property can be protected, concessions can be forced, and business can be done under the familiar laws and practices of the home country. Under these favorable conditions, profitable new outlets for capital investment are created and the unemployment problem of the home country is perhaps reduced.

We do not mean to suggest that the sole purpose of imperialism is to overcome domestic unemployment. Imperialist adventures may be undertaken, at the behest of the owning class, in order to create more profitable investment opportunities than exist in the home market, even though the domestic economy is not threatened with crisis. It may also be undertaken to achieve national prestige, to attain national self-sufficiency, and for other possible reasons. Nevertheless,

imperialism is closely related to the problem of cyclical unemployment.

Imperialism is in bad repute. It leads to unsavory political, economic, and cultural relations between the dominant nations and the tributary peoples. Moreover, it leads to competition, frequently ripening into armed conflict, among the several economically advanced nations which are all seeking to extend their areas of dominance. Nationalistic imperialism, thus, is a source of friction and is an influence that tends to divide the world, to suppress whole peoples, and to retard the emergence of world economic organization. Imperialism carried to its logical end would mean domination of the entire world by one nation. That prospect indeed became familiar to us as the avowed war aim of Germany in World War II.

### *ALTERNATIVE TO IMPERIALISM*

If imperialism is not to develop, in part as a means of opening and maintaining foreign investment outlets, some other form of organization is necessary. To some extent, foreign investments of a long-range, developmental type might alleviate some of the very hazards which have precluded foreign investment save on a nationalistic or imperialistic basis. Indeed, such investments might provide a more substantial basis for long-run economic relations among nations of the world than we have established in the past.

The use of capital in a borrowing country has too often been directed solely in the interests of the lenders. As a result, the economic life of a borrowing country has often been directed into the production of commodities for export along lines beneficial at the moment to creditors. Borrowing nations have consequently specialized intensively in the production of certain goods for foreign sale—and when export markets for those goods collapsed, debts have been repudiated and the domestic economy of the borrowing nation prostrated.

Foreign investment under such circumstances is exploitive rather than developmental. Foreign investment, to contribute to international economic stability, should not be directed exclusively into channels which render a nation's economy vulnerable to the demand for a few export products.

Long-run developmental projects, aimed at stabilizing economically weak nations in order that they may participate in an expanding world economy, constitute an important problem confronting future foreign investment. Such outlays will probably call for modification of existing institutions and terms of investment. The very size of such projects and the risks associated with them may very well discourage foreign investment through private channels. In such cases public institutions may undertake the function by means of government investment abroad. Such government investment in long-term developmental projects is now a part of the foreign policy of the United States. Our government's investments in Latin American nations to aid in the production of steel and strategic materials offer a case in point, as does the recent policy in respect to the operation of the Export-Import Bank.

The probable trend toward public investment of this type should not be interpreted as marking the end of the role of foreign investment through private channels. There is no reason why private investors cannot place funds abroad to their advantage, although returns and length of time for repayment may not be those formerly associated with such operations. Nevertheless it is difficult to contemplate the role of international capital in the long-run developmental sense without serious attention being given to an increasing flow through public channels, at least in early stages of major projects. To facilitate such activity is one of the purposes, of course, of the new World Bank.

The operations of government in the field of international finance are fraught with many difficulties, and admittedly discretion and careful judgment are demanded. Government

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lending without careful survey and analysis as to possibilities of increased productivity and long-run stability might tend to be a boomerang. Stability in this sense applies to the total economy of the borrowing and lending countries and the nations of the world with whom they carry on economic relationships. Such haphazard granting of loans as occurred in the 1920's must be avoided at all costs. The nature and degree of future competition in international markets must be taken into account, since the payment of interest and principal must ultimately come in the form of transactions that affect the international balance sheets of all nations participating in world trade. Not the least important consideration affecting the role of government in foreign investment is the danger that lending countries may seek political control as a condition of granting loans. This type of investment can conceivably serve as a framework for further Twentieth Century imperialism. Such problems are not incapable of solution, but they produce delicate situations and call for a willingness to adjust and compromise in the interest of international economic order.

## *RELATION BETWEEN INVESTMENT AND TRADE*

Foreign investment unaccompanied by the movement of goods internationally leads to default, expropriation, and inadequate returns. The stimulating effect of foreign investments upon exports has been evident, but the equally fundamental relation between investment and imports has not been as thoroughly understood. Foreign investment encourages, of course, the demand for export products. Foreign investment is not a mere shipping of money abroad, but rather it is a device whereby goods produced in the domestic market are shipped abroad. In case the investment takes the form of a loan to foreigners, then these individuals are given purchasing power which can ultimately be used only to secure the lend-



er's domestic products. In case the citizens of the home country make the investment directly, they will use the money either to buy domestically produced machinery, supplies, or the like, to be sent abroad. Otherwise they will use the money to buy goods and services produced elsewhere which will enable these producers to claim goods on the domestic market. Thus, directly or indirectly, foreign investment is a means of stimulating the foreign demand for domestic products. Whether trade is between the lending and borrowing countries, or instead involves multilateral trade and many nations, an investment is a claim to the purchasing power and resources of the lending state.

Nations have not been so cognizant of the corresponding absolute necessity that a lending nation must also be willing to import goods. Indeed, severe international maladjustments have arisen from the failure in the past to coordinate foreign lending with trade policy. Loans on international account must always be made in contemplation of maintaining continuing economic relations that will allow repayment. Loans can be repaid only out of increased productivity in the borrowing country. Increased productivity in the international sense means ability to secure income through sale of products. Yet the debtor countries cannot sell goods abroad unless foreign nations are willing to import. Even if these debtor or borrowing countries have their market in some nation other than the ones lending, the latter must be willing to allow imports if even multilateral trade is to repay the loan. If direct investment has been made, a similar movement of goods is needed to return earnings.

The results of a failure to understand this basic relationship between investments and imports are illustrated by recent United States foreign economic relations. Probably the most crucial point in the history of United States international commercial policy was the period following the close of World War I. The demands upon our productive capacity prior to

our entrance into that war opened up markets for American producers to such an extent that the country geared its economy to so-called export prosperity. Foreign trade, at least on the selling side, was seen to be a part of domestic well-being. Not only did the nations of Europe seek goods from American farms and factories, but they also sought American capital. As a result, the United States changed from the position of a debtor nation on international account to that of a creditor. This was a role for which the United States was not fitted, either by tradition or training, as was amply evidenced by post-World War I tariff increases. At the very time when our creditor status made a rising scale of living possible and increased imports necessary, our policy was designed to frustrate such imports.

Two economic measures implemented this central core of American trade policy, guarding against imports while attempting to maintain the export position into which the war had directed us. In 1922 the United States enacted the Fordney-McCumber Tariff, as European nations also indicated their desire to embrace protectionism. Finally, the United States accelerated the steady growth of protectionism by the passage of the Hawley-Smoot Tariff of 1930. New obstacles were placed in the path of imports in all portions of the world. Since the imports of one nation are the exports of other nations, international trade was prevented from performing its normal function.

The commercial policies pursued in the postwar period removed practically all hope that a stable international trading mechanism could be rebuilt. Debtor nations were unable to find sufficient export markets to build up income from which to make payments because creditor nations continued to place restrictions upon imports. Nations of the world pursued their own international economic policies in an attempt to guard their own domestic economies against pressures from the outside world.

Into this world of economic chaos and uncertainty the United States continued to pour capital funds on a vast scale. Inasmuch as these loans placed purchasing power in the hands of foreigners, American exports could be maintained at a relatively high level while we were also pursuing a policy of restricting the imports from which payment must ultimately come. We were insisting upon payments for old debts, but substantial portions of our new foreign loans were serving only to provide dollars with which foreigners could make payments to us. This flow of funds was for the most part haphazard and practically no attention was given to the economic implications of capital export. Our lending policy was not based upon consideration of the balance of payments and upon the whole of our international economic relations. Rather, it was guided primarily by that deep-rooted tradition which emphasizes exports and regards imports only as necessary evils which should be avoided if at all possible. Only by continued lending could we temporarily postpone the inevitable role which a creditor nation must assume—a receiver of imports in payment of obligations. Continued lending came to be viewed as preposterous in the face of increasing inability to pay, and as demands for repayment grew, the stream of lending dried up. The breakdown of this financial apparatus and the ensuing collapse of international markets brought the world to the period of savage and disastrous economic warfare that characterized international relations prior to the outbreak of World War II.

This relation between foreign investment and foreign trade is fully as evident with respect to government outlays as with respect to private outlays. The necessity for accompanying extensive foreign investments or loans by a moderation of trade restrictions was recognized in the administration of the Lend-Lease Act. Painfully aware of the way in which extreme protectionism during the post-World War I period conflicted with our status as a creditor nation, the United States gov-

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ernment included a very revealing and significant provision in each lend-lease agreement with a foreign nation. This provision, incidentally, was strikingly reminiscent of the wording of a section of the Reciprocal Trade Agreements Act, originally passed by Congress in 1934. The provision read: <sup>7</sup>

In the final determination of the benefits to be provided to the United States of America by ——— in return for aid furnished under the Act of Congress of March 11, 1941 (lend-lease), the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action . . . open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers . . .

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Even investments on such terms as those just described, however, might run afoul of political, social, and economic institutions oriented toward national ends. In short, investments made on a world-wide basis also need financial and economic institutions transcending domestic boundaries. These institutions may in turn be incorporated in a broader fabric of economic, political, and social organization. Thus, a further alternative to nationalistic imperialism, as a means to the achievement of foreign investment, is the creation of agencies and institutions whereby two requirements can be satisfied. First, that the backward areas can have the advantages of economic development in terms of Western technology with-

out their becoming vassals of Western nations; and second, that the advanced countries can use their surplus capital in the undeveloped regions of the world, thereby aiding in the advancement of the backward areas. In order to accomplish these aims, however, it may well be necessary to create and maintain international institutions whereby the capital-importing regions would be free of political domination by the advanced countries, yet whereby modern techniques and political stability can be achieved in the backward regions. One of the great problems for postwar settlement is to evolve institutions for this purpose. An international bank or clearing house for foreign investments allows the immediate source of capital flowing to the undeveloped areas to transcend nationalism. There may even be a further need, ultimately, for international agencies that will collaborate in the government of the backward areas in order to insure political stability and the enforcement of contracts. In other words, international organizations and agencies operated in the general interest must be substituted for traditional, and now flourishing but largely discredited, nationalistic imperialism. These new institutions can exist and function only in a community of nations where integral nationalism, feudal social structures, and ethnocentrism no longer dominate. They may also, however, serve to furnish one means of weakening these forces and breaking the vicious circle of our age.

#### WORKS CITED IN CHAPTER 8

1. This brief synthesis is indebted to such a multiplicity of sources that acknowledgment is difficult. See particularly, however, L. V. Chandler, *An Introduction to Monetary Theory*, and John Maynard Keynes, *General Theory of Employment, Interest, and Money*.
2. For an explanation of this distinction between an individual bank and the system, see C. A. Phillips, *Bank Credit*.
3. See, for sharply contrasting interpretation of this limited evidence, George Terborgh, *The Bogey of Economic Maturity*, as op-

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posed to Alvin Hansen, "Some Notes on Terborgh's: The Bogey of Economic Maturity," *The Review of Economic Statistics*, 28:13-17, February, 1946, and Benjamin Higgins, "The Doctrine of Economic Maturity," *American Economic Review*, 36:133-141, March, 1946.

4. Simon Kuznets, *National Income and Capital Formation*, p. 48.

5. These data are found in "Data Relating to the Outlook for Interest Rate," an appendix to "Outlook for Interest Rates," an address by Howard R. Bowen, Economist, Irving Trust Co., before the Oregon Bankers Association, Portland, June 18, 1946.

6. From "A National Survey of Liquid Assets," *Federal Reserve Board Bulletin*, 32:574-580, 716-722, 844-855. June, July, August, 1946.

7. See, for example, the identical wording of this clause in the various lend-lease agreements, as reported by the U. S. Department of State *Bulletin*.

## CHAPTER 9

### POPULATION PRESSURE

ONE OF THE more significant outgrowths of the impasse between technology and modern industry on the one hand and extreme nationalism and cultural lag on the other has been increasing *population pressure*. Since this pressure is an outgrowth of the discrepancy between scales and standards of living, any factors widening the breach have led to increased tension and friction. Modern technology, while stirring up new wants and aspirations, has not been able to fully satisfy these desires because of the throttling effect of political, economic, and social localism. Thus the gap between what nations have and what they want has often been enormously increased. The resultant unrest has facilitated and accentuated extreme nationalism in many areas, and it has often been used to muster support for aggression and war. Paradoxically, population pressure, as herein defined, is aggravated by cultural lag and nationalism and in turn bulwarks such forces.

The relation between these factors in world anarchy and population pressure as a phenomenon must rest upon a more detailed analysis of the nature and origin of such pressure. Until an adequate theoretical explanation is advanced, further analysis has no foundation.

#### ORIGINS OF POPULATION PRESSURE

Population pressure comes into being whenever a gap appears between the group's *scale of living* and its *standard of living*. *Scale of living* refers to the flow of goods and services

which the group is able to achieve through the utilization of its resources in any given unit of time. Standard of living refers to the flow of goods and services to which the group aspires, or rather, that flow for the attainment of which it is prepared to sacrifice time and energy. The scale of living is a function of the productivity of the economy and its resources. The standard of living is a function of the stage of general cultural advance. The former is the way people actually live, what they have to consume and enjoy. The latter is the way they desire to live, their conception of a "decent" mode of life, of an adequate real income. The degree of population pressure varies with the width of this gap: the greater the discrepancy between the group's scale of living and its standard of living, the greater the degree of population pressure; the smaller the discrepancy between them, the less the degree of population pressure. As the discrepancy increases the degree of pressure moves toward infinity and as it decreases the degree of pressure approaches zero.

It will be noted that this concept is not precisely the popular usage of the words population pressure, and neither is it in accord with all professional usage. Many definitions of population pressure are couched in terms of an optimum relationship between resources and population. (Thus, if the population of an area is so small that its resources cannot be most effectively used, then population is below optimum and the area is in a population "vacuum." If the population is so large that resources are used beyond the most efficient point and not in least-cost combination, population is above optimum and there is population pressure.) Such definitions, while useful for many purposes, tell us little about attitudes, which are of such enormous importance when the world economy and political organization are approaching breakdown and war threatens. If modern methods of communication, transportation, and advertising have elevated standards of living beyond any feasible scales of living, there can be population pressure



in terms of attitudes and unrest whether population size is above or below optimum in terms of resources. In either event, the scale is not high enough to reach the standard, and attitudes reflect that discrepancy. Actually, population size can be at optimum—where there is the best possible balance of population and resources—and population pressure can still materialize. Contrariwise, if the standard of living is lowered far enough by mass resignation, cultural factors, or any other force, population size can be above, below, or at optimum without appreciable pressure and unrest. While less than optimum or greater than optimum size is likely to lower scales of living, population pressure as herein interpreted results only if standards of living remain higher. In our modern world, however, technology has facilitated high standards of living but has been so distorted and perverted that scales of living have not risen as sharply as would be possible if the world's resources could be fully and most efficiently used.

Stated mathematically, population pressure is a function of the difference between scale and standard of living; it may be expressed symbolically by the formula

$$X = f(S_s - S_c),$$

in which  $X$  = degree of population pressure in any given area,

$S_s$  = standard of living of the area, and

$S_c$  = scale of living of the area.

It is probably true that the scale of living seldom rises above the standard of living, that the standard sets an upper limit or ceiling to variations in the scale. If persons possess means over and above those necessary to close the gap, the surplus tends to go unutilized. If productive capacity exceeds that necessary to bring the scale and standard into a state of coincidence, the excess tends to be quickly dissipated; it disappears as rapidly as it appears.

When excess capacity comes into being, some one of three

processes (or some combination of them) is set in operation functioning to destroy it. In the first place, new wants and desires may be stimulated so as to cause the standard of living to rise, and thereby produce the usual situation wherein the standard is above the scale. The second possibility is that the disappearance of population pressure may result in a relaxation of the controls on reproduction, with a consequent increase in population size and a decrease in the scale of living. (This increase may be effected either by a rise in the birth rate or by a decline in the death rate. The former would result from the relaxation of sexual controls, the latter from a tendency to utilize the increased capacity for keeping alive unplanned-for children, where previously they had been slowly subtracted through lethal selection.) The third possibility is that the economic system may be thrown into disequilibrium through forced savings, investment imbalance, and unemployment, with the incidence of population pressure placed upon those least able to compete.

Historically, one could almost make the dogmatic statement that for any particular group the scale of living has never been in complete equilibrium with the standard of living, although in many instances they have closely approximated each other. Like any state of social equilibrium, such a condition is never completely reached, because the factors impeding its attainment seem to be in constant operation, and it can almost be said that competition to improve scales of living is a continuous process, although one that varies in intensity from group to group and from time to time.

The relatively small, primitive, self-sufficient, socially isolated communities make the closest approximation to a complete social equilibrium. In these groups, population pressure is almost absent and the principle of status is the dominant social rule. Among large societies, India, prior to the impact of Western civilization, once came very near to a complete equilibrium. The caste system divided the society into numer-

ous noncompeting groups and status was the dominant social principle.

A community once in equilibrium can be thrown into a state of disequilibrium either by a rise in the standard of living, by a decline in the scale of living, or by a combination of the two. The degree of population pressure precipitated thereby will depend upon the extent to which the standard rises or the scale falls, since, other things being equal, population pressure varies inversely with the scale of living and directly with the standard of living. In any group experiencing population pressure, the pressure may increase even though the scale of living is rising, if the standard of living is rising more rapidly. Likewise, a group may experience less population pressure in spite of a declining scale of living, if the standard of living is declining even more rapidly. Since both are variables, the degree of pressure depends upon their relative positions, and changes in pressure depend upon their relative movements, especially upon the relative rates at which they move in one direction or the other.

Societies that are expanding economically or politically (or in which the process of civilization is running its course) experience population pressure because the standard of living tends constantly to outrun the scale of living. Modern India, for example, has been sufficiently exposed to modern technology and Western civilization for mass political and economic aspirations to expand sharply. Yet the increases in material welfare made possible by improved transportation, irrigation, and production have been largely thwarted. As has so often been the case in the very early stages of industrialization, drastic population increases, rather than greater comfort or better food, have resulted. In this case, Indian population is doubtless above optimum in terms of resources and the nation is experiencing population pressure however that term may be defined.

Occasionally there may be periods when both the scale and the standard are stabilized temporarily, or slacken their rate

of increase, or even approximate each other. Nevertheless, in advanced communities the general state of affairs is one in which a high scale of living and a high degree of population pressure exist simultaneously, because the group standard of living is also very high. In fact, such a society may experience a greater pressure of population than does a relatively more primitive group. The latter, even though at a lower state of technological advance and a lower scale of living, does not place such exorbitant demands upon its economic resources. The relatively stable, primitive communities, on the other hand, are more likely to experience increased pressure of population because of a more, or less sudden decline in the scale of living.

When changes occur in either the scale of living, the standard of living, or both, and thereby throw the community out of equilibrium, the process of competition is initiated and various subsidiary processes are set in operation to restore the balance by bringing the scale and the standard back into a state of coincidence. Before these subsidiary processes appear, however, the intensity of the competitive struggle (population pressure) becomes relatively severe and is "felt." But as these resultant processes work themselves out so as to restore equilibrium, pressure subsides and group members come to feel free and unshackled. If the processes which operate to restore equilibrium are hindered in occurrence, are blocked and impeded, individuals feel frustrated and the basis is provided for the existence of widespread unrest. This is the setting that breeds wars and revolutions. Intense pressure of this sort, enduring or chronic, snaps the moral tissues of the society; competition gets out of bounds, overflows the socially prescribed channels or norms; and the process of conflict emerges.<sup>1</sup>

The resultant processes, initiated by population pressure and operating to restore a state of social equilibrium, are of two main types: first, those which result in raising the scale so as to make it approximate the standard; second, those which

result in lowering the standard so as to make it approximate the scale. The processes coming under the first group are four: first, population movements (such as migration, birth control, occupational movements); second, capital movements; third, extension of the division of labor (personal and territorial) through improvements in the technology of production; and fourth, changes in the economic institutions which serve to improve group adjustment to the general conditions of life. All of these processes serve to expand the productivity of the economy, to attain a more efficient combination of the factors of production, and thereby to raise the scale of living.

In a sense, war and revolution come in the fourth category. However, they do not always have this general result; they usually operate merely to shift the incidence of pressure upon persons or groups, rather than to reduce the amount of pressure. Modern wars seem to increase population pressure rather than to reduce it because they usually destroy such quantities of productive capacity that the reduction in population size is more than counteracted or offset. Revolutions which are very destructive, and which merely result in the replacement of one privileged class by another, often intensify the competitive struggle rather than relieve it. Revolutions which are not destructive, but which operate so to redistribute wealth and income that the economic system can avoid periodic breakdown and widespread unemployment, might result in the diminution of population pressure. Likewise, it is conceivable, although not very probable, that wars might be but slightly destructive and of such a sort that they result in such a redistribution of national possessions as to place economic resources in the hands of people able to use them more efficiently. Such a situation might result in a net reduction of population pressure. Both revolutions and wars might also result in drastic reductions of the standard of living and hence cause a diminution of population pressure.

Because the standard of living is very tenacious and tends to persist, unless affected by powerful forces, the processes of the first type are those which chiefly serve to relieve population pressure once it is generated. It is only when these processes are thwarted, impotent, or have made their maximum contribution, and a discrepancy between the scale and standard still continues to exist, that the processes of the second type come into operation. Or, to state it somewhat differently, it is only when hope and optimism disappear, because the upward movements of the scale have ceased or have been reversed, that people lower their levels of aspiration in order to reduce the intensity of the competitive struggle.

### WORLD SCALES OF LIVING

As has been indicated throughout this chapter, one of the results of the impasse between technology and cultural lag has been population pressure. Such pressure has resulted from the fact that technology has facilitated the expansion of wants throughout the world, without always being allowed by political and economic organization to satisfy these wants. It is difficult to measure precisely how sharply standards of living have risen, especially in Asia, although recent political developments afford a clue. Measuring scales of living is difficult but not impossible. In the concluding pages of this chapter, an attempt is made to indicate the generally low level of living scales that prevail in the world. These low scales of living, maintained in spite of the same body of scientific and technological knowledge that produced the atomic bomb, testify to the perversion of science and technology. They also afford, even without full knowledge of exact levels reached by standards of living, some insight into the extent of population pressure and unrest in the world.

The modern world is characterized by sharp divergences between the scales of living in various countries. It also fea-

tured a generally low level of consumption, since by far the greater share of the world's people live near the margin of subsistence. Only a few of the mature urban-industrial nations diverge from this over-all pattern of nearly universal poverty.

This world pattern has been an outgrowth of a host of social, political, and economic factors. In part it has arisen from the fact that all nations are not similarly endowed with human and material resources. Yet it cannot well be questioned that these discrepancies have been maximized by political and social factors that have prevented world-wide economic development and the global application of modern technology.

A compendium of statistics on what people in various areas of the world actually consume would be a very important adjunct to treatments of population pressure and an indispensable guide to many efforts to deal with international problems in a practical way. Unfortunately, accurate data on scales of living and standards of living are meager.

An adequate objective description of the scale of living of a population would include figures on the average flow per capita of each of the consumer goods and services for a convenient unit of time, preferably a year. The general averages would be broken down to bring out contrasts in the composition of the scales of living of the several social and economic classes. It would be desirable to have this sort of information assembled for a series of years, in order that changes might be noted.

Such a collection of figures, if available for areas throughout the world, could be put to considerable use. First, such statistics would provide indications of the various adjustments peoples are making to the prevailing circumstances of economic life. Second, sharp differences among nations and among classes within these countries would appear. Third, an examination of consumption patterns over an extended period

would disclose general trends, reflecting whether scales of living are rising or falling. Fourth, a blueprint of consumption, together with a picture of production, in the scattered regions of the earth would exhibit both the impact and the tragic limitations thus far imposed upon modern technology.

### FOOD CONSUMPTION

Although complete and reliable data on scales of living are not accessible, some attention may be devoted profitably to one major category of consumer goods, namely food.

World food consumption statistics are fragmentary and often approximations. They clearly reveal, however, that food consumption in the various continents and nations differs more in character and in energy value than in poundage. The following table indicates this fact.

Approximate Annual Consumption of Food <sup>2</sup>

Continent	Billions of pounds		Per capita, pounds	
	Wet	Dry	Wet	Dry
Asia .....	1,411	627	1,223	543
Europe .....	947	338	1,647	587
North America .....	307	104	1,668	567
Africa .....	190	86	1,210	545
South America .....	122	49	1,371	552
Oceania .....	20	6	1,818	572
World .....	2,997	1,210	1,381	558

The amount of dry matter apparently varies less than the total intake, due to the proportion of animal products to grains, which have a lower amount of moisture. North Americans consume but 4 per cent more dry matter than Asiatics, but a third more food.

Sharp differences appear, however, when types of food are considered. As has been stated: <sup>8</sup>



The Eskimo lives on frozen fish, blubber, and reindeer meat, taken straight. The tropical man consumes mostly plant food; he eats little meat. Between these two extremes there is a wide range in the proportion of plant and animal products in man's diet. For the world, animal products represent 9 per cent of consumption, but the percentage varies from 3 for Asia to 25 or more for North America and Oceania. The North American consumes more animal food in a day than the Asiatic does in a week. The European has a relatively high standard of living. He consumes about twice as much of the highly prized foods as the world average, and only a third less than the North American.

This comparison is made specific and graphic by a table:

Approximate Amount of Plant and Animal Food Consumed—Dry Basis

Continent	Per capita, pounds			Per cent Animal
	Animal	Plant	Total	
Asia .....	16	527	543	3
Europe .....	97	490	587	17
North America .....	143	424	567	25
Africa .....	21	524	545	4
South America .....	87	465	552	16
Oceania .....	208	364	572	36
World .....	52	505	558	9

Estimates of the quantities of certain foodstuffs consumed by peoples of Western culture, during prewar years, are given in the following table. Some striking contrasts among the countries, both in composition and quantity of diet, were apparently in evidence even before the uneven impact of World War II. Fragmentary statistics for non-Western nations indicate even sharper disparities on a world-wide basis. Note for example the great reliance placed on cereals and the relatively small volumes of consumption of meat, butter, and sugar in Italy. Also bear in mind that average figures conceal sharp differences in consumption among the segments of a given population.

Estimated Annual Per Capita Consumption of Certain Foods in Various Countries of Western Culture for Recent Years <sup>a</sup>

Countries	Cereals (lb.)	Meat (lb.)	Eggs (no.)	Milk (qt.)	Butter (lb.)	Sugar (lb.)
Australia .....	205 <sup>b</sup>	201	*	75	30	114
Belgium .....	227 <sup>b</sup>	90	236	75	24	54
Britain .....	205	140	172	70	18	89
Denmark .....	222	115	111	150	13	113
France .....	301 <sup>b</sup>	86	149	100	14	50
Germany .....	234	112	129	98	16	53
Italy .....	395 <sup>c</sup>	36	119	2	3	16
Sweden .....	*	79	110	176	20	86
United States .....	248	135	252	153	17	100

<sup>a</sup> Not available.

<sup>b</sup> Wheat.

<sup>c</sup> Excluding rice.

Cereals are the main source of energy in the world's diet. The Asiatic and Mediterranean peoples, for whom cereals are the staple food, make up a very large portion of the population of the world. Rice is the preferred cereal in Asia, but elsewhere wheat has gained precedence. Extensive use is made of rye in Central, Eastern and Northeastern Europe, and corn is important in Southeastern Europe and in parts of the United States. Just prior to World War I, approximately one-third of the total calories in the diets of the United States and England were derived from cereals. The percentages in other countries were: Germany, 39; France, 55; Italy, 64; Russia, 73; and Japan, 87. Wheat supplied from 26 to 50 per cent of the total calories in the diets of the United States, England, Italy and France, but in Germany the percentage was only 16, in Russia, 19, and in Japan, 6.<sup>5</sup>

During the past quarter-century the per capita human use of cereals for food has declined. It would appear that as incomes rise, more expensive foods are substituted for the comparatively cheap cereals. There has been no clear trend in the consumption of meat or fish, although particular variations have been induced largely by changes in the conditions of

production. In the countries of Western culture there have been steady and marked increases in the consumption of eggs, dairy products, vegetables, fruits, and sugar. The diversification of diet that has been achieved has probably been shared in by all classes, although certainly not to an equal extent. During the past century the problem of food for a significant proportion of the world's population has come to be one of adequate nutrition rather than one of hunger.

Underlying recent dietary changes are several related developments which seem likely to persist. The application of science and the utilization of capital accumulations have increased the yields of productive efforts and have ushered in an era of extensive transportation of foodstuffs. Mechanization in agriculture and industry, on the one hand, has made possible a higher output and, on the other, has reduced the necessary expenditure of energy by the producing population. The increase in income (or purchasing power) associated with the rise in the productivity of labor has enhanced the ability of consumers to obtain foods of greater variety and costliness.

This increase in income and productivity has not, however, been sufficiently uniform to result in equivalent increases in food consumption. This disparity is illustrated by computations as to the minutes of work required to buy a stipulated combination of articles (milk, eggs, wheat bread, beef, and butter). It is true that various nations do not desire any particular combinations of food with the same intensity, and that the figures for such countries as Denmark are disproportionately impressive because these nations happen to produce in abundance these very foods. Nevertheless, such figures reflect rather graphically the divergent scales of living, as measured by food consumption, even among various Western European countries. If a valid comparison could be made involving non-European areas as well, the discrepancies would doubtless be even more striking. Again, these statistics reflect prewar conditions, and hence understate the present situation.

Minutes of Work Required to Buy a Combination of Articles (Milk, Eggs, Wheat Bread, Beef, and Butter), 1937 <sup>6</sup>

<i>Country</i>	<i>Minutes</i>
Germany .. . . .	453
Belgium .. . . .	365
Switzerland .. . . .	316
Netherlands .. . . .	297
France .. . . .	266
Sweden .. . . .	261
Great Britain .. . . .	250
Norway .. . . .	211
Denmark .. . . .	207

The shortening of working hours and the enlargement of the proportion of the population engaged in sedentary occupations have lowered the requirements of workers for foods with high energy value in relation to bulk. The observed trends in food consumption have been affected also by social-security and social-welfare programs and by propaganda and education stemming from studies in nutrition. The technical possibilities of all areas' enjoying a more diversified and adequate consumption of food and of their being largely immune from the disasters once attendant upon breakdowns in local food production have been only partially realized. These advances have been relatively localized and have not reached most areas of the earth, especially not the famine-ridden Orient.

### CONSUMPTION OF NONBASIC ITEMS

The following table presents estimates, for many of the major countries of the world, of the employment of specified devices upon which the physical existence of the individual is not directly dependent. The many contrasts among the countries are noteworthy and interesting as indications of differences in the extent to which various peoples participate in the use of modern techniques of communication. In reading the table, however, one should be extremely hesitant in form-

ing judgments of welfare by imposing the standards of one culture upon consumption in areas with differing patterns. Realistically, welfare is a relationship between the items people actually consume and the subjective valuations the people themselves place upon the level and content of their consumption.

Certain Indicators of Consumption in Various Countries <sup>7</sup>

Countries	Pieces of mail per capita	Telephone instruments per 100 people	Telegraph messages per capita	People per motor vehicle
Europe:				
Belgium .....	165.0	3.9	0.7	39.5
Britain .....	142.0	5.1	0.9	26.3
France .....	151.0	3.3	0.7	22.2
Germany .....	156.0	4.7	0.3	66.7
Italy .....	57.0	1.2	0.6	111.1
Sweden .....	134.0	9.9	0.6	41.7
Near East:				
Egypt .....	6.9	0.2	0.3	523.0
Turkey .....	6.1	0.1	0.9	1925.0
Soviet Union .....	38.1	0.4	<sup>b</sup>	1000.0
Far East:				
China .....	1.6	<sup>b</sup>	<sup>b</sup>	8340.0
India .....	3.0	<sup>b</sup>	<sup>b</sup>	5000.0
Japan .....	61.3	1.6	0.8	506.0
Australia .....	134.0	7.5	2.1	11.2
New Zealand .....	280.0	10.2	8.5	9.1
South America:				
Argentina .....	53.9	2.7	1.1	51.6
Brazil .....	33.6	0.4	0.1	500.0
Chile .....	17.7	1.1	1.3	137.0
Peru .....	6.9	0.3	0.5	476.0
North America:				
Canada .....	<sup>a</sup>	11.0	0.9	10.0
United States .....	207.0	13.4	1.3	5.1

<sup>a</sup> Not available. <sup>b</sup> Less than 0.1.

## THE RELATIVE HEIGHT AND ADEQUACY OF SCALES OF LIVING

Scales of living may be examined further with two questions in mind: First, how do countries compare with respect to the volume of consumer goods and services? Second, how do countries compare with respect to the *adequacy* of the flow of consumer goods and services? The first problem may be attacked with an objective measure of scales of living; the second calls for some criterion or index of the adequacy of goods and services consumed.

Colin Clark has expressed real income with a term of universal applicability, the international unit. An *international unit* is the quantity of goods and services \$1 would purchase in the United States over the average period 1925 to 1934. Computations of the average real income of working populations are presented in the accompanying list; the figures for countries in the second section are approximations. These statistics again constitute an understatement of present stark contrasts in a war-ravaged world.

Average Annual Real Income per Head of Working Population of Specified  
Countries as Expressed in International Units, 1925-1934 <sup>8</sup>

Country	Income	Country	Income
United States .....	1,381	Czechoslovakia . . . . .	455
Canada .. . . .	1,337	Greece .. . . .	397
New Zealand .....	1,202	Finland .. . . .	380
Great Britain .....	1,069	Hungary .. . . .	359
Switzerland .....	1,018	Japan .. . . .	353
Australia .....	980	Poland .....	352
Netherlands .....	855	Latvia .. . . .	345
Eire .. . . .	707	Italy .. . . .	343
France .. . . .	684	Estonia .. . . .	341
Denmark .. . . .	680	Yugoslavia .. . . .	330
Sweden .. . . .	653	U.S.S.R. .. . . .	320
Germany .. . . .	646	South Africa .. . . .	276
Belgium .. . . .	600	Bulgaria .. . . .	259
Norway .. . . .	539	Romania .. . . .	243
Austria .. . . .	511	Lithuania .. . . .	207

Country	Approximate income	Country	Approximate income
Argentina .....	1,000	Portugal .....	300-400
Chile .....	500-600	Egypt .....	300-350
Spain .....	500-600	British India .....	200
Brazil .....	400-500	China .....	100-200

The shares of the world's income received by the different countries prior to the outbreak of World War II were as follows:

Average Annual World Income, by Classes of Countries, Expressed in International Units, 1925-1934

Countries	Income, Billions of International Units
The four Great Powers:	
United States .....	65.6
Great Britain .....	21.9
Germany and Austria .....	19.0
France .....	12.5
	119.0
Other creditor countries:	
Canada, Holland, Ireland, and Switzerland .....	10.5
Wealthy debtor countries:	
Australia, New Zealand, Argentina, Uruguay, Chile, Brazil ..	13.8
Other industrial countries of European culture:	
Sweden, Denmark, Norway, Iceland, Belgium, Spain, Czechoslovakia .....	13.3
Poorer European countries:	
Yugoslavia, Greece, Finland, Hungary, Poland, Latvia, Italy, Estonia, Portugal, Romania, Lithuania, Albania .....	16.6
U.S.S.R. ....	17.5
Japan .....	8.1
Other partially developed countries:	
Egypt, Algeria, Tunisia, Morocco, South Africa, Turkey, Palestine, Syria, Cyprus, Philippines, Hawaii, rest of Central and South America .....	7.3
China .....	22.7
British India .....	15.0
Dutch Indies .....	2.6
Rest of Asia, Africa and Oceania .....	8.0
World total .....	254.4

In the following table the world's population is arranged in income categories. The disproportionate distribution of world income is so evident as to require no further comment.

World Population Distributed According to Categories of Average Annual Real Income Expressed in International Units, 1925-1934.

<i>Real Income per Head, International Units</i>	<i>Millions of Population</i>
Over 1,250	139
1,000-1,250	65
700-1,000	18
600- 700	130
500- 600	39
400- 500	72
300- 400	451
200- 300	68
Under 200	1,113
Total	2,095

The death rate of a population may be taken as an index of the adequacy of its scale of living. The crude death rate is defined as the absolute number of deaths per one thousand total population over the period of a year. Crude death rates may be used to indicate the adequacy of scales of living; the results are not precise, but approximate and significant contrasts may be observed. More exact comparisons of population could be made on the basis of death rates which were refined to take age and sex differences into account. However, refined or corrected death rates for many areas are not accessible, and the crude death rate is probably the most satisfactory available indicator of the general state of welfare in a population.<sup>9</sup> Crude death rates for countries in various areas of the world are cited in the table on page 234 which reflects prewar, long-run conditions, rather than merely the impact of World War II.

A comparison of the death rates of different populations provides information on the relative adequacy of their modes of life under the prevailing circumstances. If the death rates in two areas were equal it would not necessarily mean that



the scales of living in these places were the same, for differences in tastes and in the rigors of human existence may be involved. The death rate is, however, one bit of evidence on the success with which a population has adjusted to the conditions of life.

Crude Death Rates in Specified Countries, 1928-1932 <sup>10</sup>

<i>Country</i>	<i>Death Rate</i>
Europe:	
Belgium .....	13.6
England .....	12.2
France .....	16.4
Germany .....	11.5
Italy .....	15.2
Sweden .....	12.0
Near East:	
Egypt . . . . .	26.5
Soviet Union .....	18.9
Far East:	
China .....	25.0
India .....	26.5
Japan .....	18.8
Australia .. . . .	9.0
New Zealand .....	8.4
South America:	
Argentina . . . . .	13.0
Chile . . . . .	24.1
North America:	
Canada .....	10.6
United States .... .	11.3

An analysis of the figures for the United Kingdom reveals that prosperous districts have a corrected death rate 30 per cent lower than the average for the whole country, while poorer districts show a rate 40 per cent higher.<sup>11</sup> Since it is probable that sanitation, water supply, and such health measures as segregation of infectious disease are not drastically less adequate in the poorer districts, the major cause of this divergence can probably be found in the levels of consumption.

The incidence of death-dealing forces is affected by many

factors. A. M. Carr-Saunders discusses the conditions influencing the death rate in four groups:

(1) Political, that is conditions relating to the maintenance of external and internal order; (2) social, including the state of knowledge in relation to the production and use of food, and to the making and use of clothing; (3) sanitary, that is conditions relating to housing, drainage, and water-supply; (4) medical, including both the state of knowledge concerning the prevention and cure of disease and its application to the public at large.<sup>12</sup>

During recent generations, death rates among European peoples have fallen with improvements in conditions in all four categories. Among non-Europeans the partial establishment of internal and external order has in many instances lessened the importance of certain causes of death. Outside of the countries populated by Europeans, however, little advance has been made in the production of food and clothing, in sanitation and in the application of sound medical knowledge, except in the U.S.S.R. and Japan, and in these countries such developments have produced noteworthy effects only within the last two decades.

### *LOWERING THE STANDARD OF LIVING*

Modern technology, ironically enough, has made lowering of the standard of living very difficult, since new aspirations are constantly encouraged. Unfortunately, extreme nationalism and social lag have prevented technology from completely satisfying the very desires which it provokes. Like whippets panting after a mechanical rabbit circling a race track, most nations never quite catch up.

The effect of the scale upon the standard, whereby the former tends to drag the latter down to its own level, should by no means be ignored. Such is exactly what happens when further rises in the scale become seemingly impossible and hope, optimism, and aspiration disappear. Persons or nations

close the gap between their scale and their standard not only by raising the scale but also by lowering the standard. The standard may be very tenacious; and, "it is much more difficult to recede from a scale of expenditure once adopted than it is to extend the accustomed scale in response to an accession of wealth."<sup>13</sup> Nevertheless, standards decline as well as climb. The societal or community standard so behaves when economic progress ceases; individual standards recede, or move toward the scale, when persons lose their mobility in the class structure.

For many nations, such a lowering of the standard and consequent achievement of a low-level equilibrium cannot result. Some nations, partially assimilated into two different technologies and cultures but not completely members of either, find themselves in a position where they are constantly under the influence of social and economic stimuli that maintain high levels of aspiration, even though their levels of achievement are much lower. Such nations become disorganized and very often belligerent and aggressive.

Population pressure becomes intense in these circumstances and results, not in a process of accommodation whereby aspirations are brought into conformity with realities, but rather in a general clamor for getting rid of the excess number of people, for revising the economic system, or for war. This tenacity of the community standard of living in modern society inevitably conduces to social disequilibrium. Yet the possibility of social reorganization also exists if intelligence is applied to social and economic problems. The American and the Western European, rather than compromise with reality, have often attempted to reconstruct reality in order to bring Utopia somewhat closer.<sup>14</sup>

Chronic cases of intense population pressure are more or less characteristic of secular societies, especially in the modern world. Widespread and fairly intense unrest seems to be normal in the Western World because its societies have the

exceptional ability to create and stimulate wishes which they do not always have the ability to satisfy. Modern education, the newspapers, the radio, and the movies bombard individuals with stimuli creating and maintaining high levels of personal aspiration. Modern advertising is a prime factor operating in this direction. Constantly playing upon human thought and emotion, advertisers maintain a high community standard of living, even when economic depression is severe and the scale of living spirals downward as unemployment mounts.

### *CAN SCALES OF LIVING RISE?*

If the basis of a permanent peace is now to be established, it will be necessary to devise ways and means for closing this gap within the various cultural segments of the world order. The attack must center, in the main, upon maximizing the productive capacity of the world economy. This undertaking will conceivably involve four things, among others: first, attempting to get the most productive location for each and every industry within the world economy; second, attempting to solve the world problem of cyclical unemployment; third, attempting to relieve the "overpopulation" of certain densely populated regions of the earth; and fourth, attempting to increase the producing and consuming capacities of the culturally retarded areas.<sup>15</sup>

The first course will involve the question of industrial relocation as autarchy is abandoned. The second will tend to be primarily a matter of coordinated government programs among the capital-exporting nations for (a) expanded investment opportunities at home and (b) expanded capital outlets abroad (especially in the areas undeveloped but potentially productive). The third is, paradoxically, a matter of raising the standard of living in certain nations and disseminating knowledge and information relative to reduction of population size.

Otherwise an enlargement of the flow of goods is likely to be wholly absorbed in population increases so that numbers continue to press severely upon the sources of subsistence and livelihood (as in India); it may be necessary to provide strong incentives in certain areas for a voluntary reduction of the number of births.

The fourth course involves fundamentally a problem in economic and technological diffusion. The technical efficiency of many backward areas can be and must be greatly increased, and their levels of consumption, particularly those of diet, housing, medical attention, and education, can and must be greatly stimulated if these populations are to participate efficiently and satisfactorily in the "great society."

Nevertheless, when all possible means have been utilized for raising the general scale of living throughout the world, and particularly in the disadvantaged nations, it may be discovered that international adjustments of a stable sort are unrealizable unless the standards of living of some nations are lowered to a certain extent. This necessity may be especially applicable for the more advanced urban-industrial nations now accustomed to preferential positions within the world economy. If feelings of deprivation and dislocations accompanying struggles for preferred positions in the world economy are to be reduced, it might be necessary for the standards of living of certain groups to be lowered. Such concessions might be a relatively low price to pay for security and peace. However, such an eventuality will come only when technology, even unimpeded by national and social restrictions, can no longer raise world productivity. With the world's resources and technological potentialities still relatively undeveloped, such retrogression by the urban-industrial areas seems remote. Major improvements in the utilization of the world's economic resources in the satisfaction of human needs and wants await the emergence of a world order.

## WORKS CITED IN CHAPTER 9

1. See Warren S. Thompson, *Danger Spots in World Population*, pp. 3-17.

2. This table, together with the one following, is taken from Frank A. Pearson and Floyd A. Harper, *The World's Hunger*, Chapter 2. Reprinted by permission of Cornell University Press.

3. *Ibid.*, p. 12.

4. These estimates are based on figures for various years between 1928 and 1935 presented by the League of Nations, *Final Report of the Mixed Committee of the League of Nations on the Relation of Nutrition to Health, Agriculture and Economic Policy*, and by the International Labour Office, *Workers' Nutrition and Social Policy*.

5. These figures are from the League of Nations, *op. cit.*, p. 103, and are based on A. E. Taylor, *The Place of Wheat in the Diet*. The factual material in this and the two following paragraphs has been obtained from this League of Nations report.

6. Gerard Swope, "The Futility of Conquest in Europe," *Free World*, 5:137, February, 1943. Quoted by permission of Free World, Inc.

7. These figures are reprinted by permission from *Consumption in Our Society*, pp. 244-247, by E. E. Hoyt, copyrighted 1938, by the McGraw-Hill Book Co., Inc.

8. This table and the two following are from Colin Clark, *The Conditions of Economic Progress*, pp. 39-42, 56-58. Used by permission of the Macmillan Co.

9. Hoyt, *op. cit.*, pp. 242-243.

10. Reprinted by permission from *Population Problems*, p. 175, by W. S. Thompson, copyrighted 1939, by the McGraw-Hill Book Co., Inc. The figure for China did not come from this source and is a rough approximation based largely on circumstantial evidence. For further world figures on crude death rates, see League of Nations, *Statistical Year-Book, 1936-1937*, p. 40.

11. League of Nations, *Measures of a National or International Character for Raising the Standard of Living*, p. 13.

12. A. M. Carr-Saunders, *World Population*, p. 75. Quoted by permission of the Oxford University Press, New York, Inc.

13. Thorstein Veblen, *Theory of the Leisure Class*, p. 102. Quoted by permission of the Viking Press.

14. An excellent contrast in the philosophies of the East and the

West is presented by Hu Shih in his chapter, "The Civilizations of the East and the West," contained in *Whither Mankind*, edited by Charles A. Beard, pp. 25-41.

15. For a good discussion of these, see Alvin Hansen and C. P. Kindleberger, "Economic Tasks of the Post-War World," *Foreign Affairs*, 20:466-476, April, 1942.

## PART THREE

# Unfolding Horizons

*IN THE midst of apparent world-wide dislocations and conflicts of interest, some halting evolution of world organization can be noted. In a world of nationalism and localized institutions, there nevertheless appear some significant gropings toward a global society. If a workable world economic system is to emerge in this process, such an economy must be able to perform certain vital functions. In the face of the need to facilitate the performance of such functions and to preserve peace, attempts to promote world cooperation, organization, and controls have become increasingly ambitious and urgent. World War II did not resolve the impasse of our age, since it strengthened both global technology and the barriers to understanding. Yet this vast war, with its incredible weapons, may have furnished the whiplash of compulsion necessary to hasten the necessarily slow achievement of a world-wide order. In this concluding section, emphasis is placed upon the functions and prerequisites of an adequate world economy; the gradual growth of world organization prior to World War II; major contemporary efforts to forge new and more potent political, economic, and social institutions and organizations; the over-all impact of World War II upon our embryonic world society and economy; and the continuing challenge which is posed to all the nations of the earth.*





## CHAPTER 10

# FUNCTIONS OF WORLD ECONOMIC ORGANIZATION

**D**ESPITE THE groping, painful evolution of embryonic world organization in political, economic, and cultural spheres, the achievement of workable global controls remains a prime task. Wars on an unprecedented scale remain the arbiters of social conflict. Despite a solid technological basis for world cooperation, extreme nationalism and cultural differences have thus far proved nearly insuperable barriers. The contrasting economic systems, the differing degrees of industrialization and economic development, and the many surviving vestiges of colonialism offer further evidence of the difficulties associated with establishing a smoothly functioning world economy.

An understanding of the basic functions which a global economic system must perform seems to be pertinent at this stage. This analysis is made especially meaningful by our study in preceding chapters of the trade dislocations, cartelization, unemployment, and population pressure that result when such functions are not being adequately performed. An understanding of these necessary functions may in turn provide a frame of reference in our subsequent appraisal of contemporary attempts to forge new instruments of international cooperation and control.

### *WORLD ECONOMY IN EMBRYO*

As a result of the great technological developments of the century—especially those having to do with transportation,

communication, and the productive use of new and improved energy sources—the basis has been laid for the achievement of a planetary economy. In such an economy the entire world may be organized as a single entity through the application of well-established principles of regional specialization and cooperation.<sup>1</sup> In fact, one of the most persistent and unmistakable trends of the past several hundred years has been the steady increase in the geographic size of the interdependent economic unit. The self-contained village economies of Medieval times have been assimilated into national economies directed from and largely dominated by great metropolitan centers. Technology and industrialization have further provided a powerful impetus toward transcending even national boundaries and controls, despite cultural lag and sporadic attempts to achieve economic and political self-sufficiency. A world economy has been erratically, slowly and again rapidly, emerging.

It is obvious that the various parts of the world, as of any country, differ from one another in soil, in mineral deposits, in topography, in climate, in access to the sea, and in other physical characteristics. The peoples of various parts of the world, schooled in unlike traditions and having dissimilar temperaments, also differ in their productive skills and in their aptitudes. Likewise, it is clear that the wages of workers, even of the same type of workers, may vary from one region to another, partly as a result of differences in the relative population densities and many another factor. The interest on capital is also higher in some regions than in others, in part because of differences in risk resulting from cultural or legal factors. For all these reasons, the cost of producing any commodity is certain to vary from one region to another, and to be lower in some than in others. For example, the United States would scarcely care to compete with Brazil in the growing of coffee, with Ceylon in the production of tea, or

with Central America in the raising of bananas. On the other hand, this country leads in the production of automobiles, radios, refrigerators, and similar manufactures.

Sheer economic efficiency dictates, therefore, that we allow Brazil to specialize in the raising of coffee, Ceylon in tea, Central America in bananas, and that the United States concentrate on automobiles, radios, and other products where we have advantages. By exchanging the resultant goods, all parties to trade get higher scales of living. The United States gets more coffee, tea, bananas, as well as more automobiles and radios, than this country could obtain if it tried to produce them all, and the other nations get more automobiles and radios, as well as coffee, tea, or bananas. This principle applies with equal relevance to trade between countries (such as the United States and England) producing roughly similar products. Even when two nations can both produce radios and automobiles, specialization will result in more goods than will autarchy.

Such territorial specialization, however, involves transportation, and has been historically limited by the state of transport technology. In past centuries, many differentials in production costs have been nullified by excessive transportation costs. Territorial specialization was largely limited to commodities able to stand transportation, that is, to goods relatively nonperishable and not too bulky in proportion to their value. However, with the development of more rapid and less costly transport facilities together with the discovery of new methods of preserving formerly perishable commodities, the principle of territorial specialization is steadily becoming more widely applicable. New commodities are being added every year to the list of those which may be transported, and the practicable distances of shipment are becoming progressively greater. Thus, if the principle of territorial specialization seemed important in the day of Adam Smith,

David Ricardo, or John Stuart Mill, it must be many times more significant in the present age of airplanes, refrigerator cars, and fifteen-knot cargo ships. Interdependence has long transcended natural, regional, and hemispheric boundaries. After World War II, with its accent upon globe-girdling air transport, vastly expanded merchant marines, and improved productive technology, the achievement of a world economy is increasingly feasible from a technical point of view.

Recognition of this fact has led to a search for ways of adjusting established institutions, which were developed for a world of localism or nationalism, to the necessities of economic relationships on a world-wide scale. The achievement of this internationalism has become the greatest problem of modern life. The full achievement of world economy, in other words, awaits the development of social organization capable of articulating the various parts of the system and providing means for the orderly resolution of conflicts among competing individuals, competing classes, and competing territorial groups or nations.

Such organization is basic to human activity on any scale, but especially as that scale becomes larger and the inter-relationship more complex. To furnish a frame of reference for the specific problem of global controls, we now proceed to an analysis of the necessity, functions, and social basis of economic organization as such.

### *THE NECESSITY FOR ECONOMIC ORGANIZATION*

Human purposes are achieved through the action of human beings within an environment. Thus, the sole means available for the attainment of human ends are to be found in human beings and in the various features of the environment within which they are working. Many of these means are to be distinguished by the fact that they possess two significant quali-

ties: first, the ability to contribute to the production of goods that are *transferable* or *salable* from one person to another; and second, the fact that they are *scarce* relative to the amount of them that might be used to advantage. Such means are often called the *factors of production* and are usually classified into three groups: *land*, *labor*, and *capital*.

Because the factors of production have these two qualities—ability to produce transferable goods and scarcity—they are of great social concern. The fact that the factors of production can be made to yield transferable goods implies the fact that any unit of product produced by them might conceivably be used or consumed by any one of a large number of different persons. This implied fact would present no difficulty if the factors were so abundant that the wants of all could be satisfied. But the scarcity of the factors or resources gives rise to an immediate conflict of interest because consumption of a unit of output by one individual necessarily precludes enjoyment of that particular good by any other individual. The gain of one, in this specific connection, must always be at the expense of another. Some wants of some individuals must go unsatisfied. The fundamental fact of scarcity thus gives rise to the phenomenon of competition. So long as there is scarcity, consumption on the part of any one individual implies that there will be that much less consumption on the part of others, and there will be a strong tendency for individuals and groups to compete, in one way or another, for the limited supplies.

If this competition were entirely unregulated, so that each individual were free to use any techniques at his command for enhancing his share of the limited means of production or of the products resulting from their use, physical combat would be the almost inevitable result. Many individuals would plunder openly, and even those peaceable ones who have no stomach for such bloody business would be forced to resort

to arms as a means of defending their livelihood. Whenever such unbridled competition has prevailed, it has become evident to most people concerned that all would be better off if the competition could be kept within certain limits. The result has been a drive for law and order, at least to the extent of the elimination of overt physical conflict. Thus, in all established societies, except during temporary periods of social disorganization, there exist elaborate bodies of moral codes, customs, observances, rituals, and laws governing the acquisition and use of the means of production, and prescribing the limits within which the competitive process will be allowed to operate. It becomes clear, then, that the stark fact of scarcity gives rise to conflicts which must be controlled or possibly curbed through the use of social devices if the members of the group are to enjoy the benefits of order and security and provide for maximum want satisfaction. Such control does not necessarily represent, however, the elimination of competition, but rather its redirection into less destructive channels by providing for definition of its role in the operation of the social system.

Social control over the disposal of the factors of production is required not only to resolve the incipient physical conflicts resulting from scarcity, but also because the efficient use of the means of production in the satisfying of wants requires organized, coordinated, and cooperative action on the part of virtually all persons in society. Though production could be carried on by each individual for his own use in the manner of Robinson Crusoe, cooperative production makes possible division of labor and specialization, and is therefore technically superior to individual production in the sense that greater output is possible with a given supply of the means of production. Division of labor implies that each productive agent is used for one or only a few types of operations in the production of any given product; accordingly,

the factors of production need to be organized so that each may perform its service in the right way, at the right time, and to the right extent. Specialization, on the other hand, implies that the production of each good is carried on in separate organizations or even that different stages in the process of producing each good are carried on separately. It also implies that each region be devoted to that type of production for which it is best suited by virtue of its natural and human resources and other productive facilities. Specialization requires that some arrangement be made to insure that each line of production is pursued in such a way as to maximize total production and want satisfaction.

In short, in order to achieve the technical advantages to be gained from division of labor and specialization it is necessary for the social group to arrange some techniques for organizing, guiding, and controlling the productive process so that the essential coordination and teamwork can be achieved. It may thus be concluded that any society which wishes to gain the advantages of cooperative production must provide a system of effective social controls over the use of the means of production. Even the so-called *laissez-faire* system, which attempts to maximize individual freedom in the use of the factors of production, is based on socially sanctioned rules regarding the use of these factors. These rules, of course, consist chiefly of the private property system.

The scarcity of the economic factors, in combination with the technical superiority of division of labor and specialization, makes of production a social and cooperative process. This condition necessitates, in turn, some form of social control over production and the use of resources. Consequently, any advanced society that hopes to be cohesive, stable, and efficient must possess laws, customs, practices, rituals, or other socially sanctioned means of regulating the use of its land, labor, and capital. The resultant institutions, taken together, constitute its *economic system*.



### *THE SPECIFIC FUNCTIONS OF THE ECONOMIC SYSTEM*

In regulating the use of the available productive factors, the social group must provide a mechanism for determining: first, which individuals shall be empowered to exercise control over the means of production; second, what shall be the supply of the factors of production; third, what specific goods shall be produced; fourth, how the factors of production shall be used in the productive process; and fifth, how the product shall be used and distributed. The performance of these five functions constitutes the task of the economic system. This classification of the functions of the economic system partially follows that of Professor F. H. Knight, who has divided what he calls "the task of organization" into three parts: <sup>2</sup> (1) the guidance of production, (2) the organization of production, and (3) the decision as to what portion of productive effort shall be devoted to provision for future wants.

First, it must be decided what particular individuals shall control the factors of production, whether these individuals be entrepreneurs or members of a planning board. There must be some arrangement for selecting these individuals and for investing them with the power to administer the means of production available to the group.

Second, it must be determined what shall be the supply of the factors of production. It must be decided how much labor shall be expected from each laborer, or how much land-use shall be obtained from each piece of land.

Third, it must be decided what specific goods shall be produced. This problem arises from the fact that the factors of production have innumerable alternative uses; hence it must be decided for what specific purposes they shall be used. They might be used to produce butter, guns, recreation centers, hats, skates, medical service, clothespins, dynamos, operas, radios, or any of a thousand of other things. Shall more swords

and fewer plowshares be produced? More wheat and less corn? More skis and fewer swimming suits? These and thousands of like questions must be answered in some way until all available resources have been assigned to specific uses.

Fourth, it must be decided how the factors of production shall be organized, combined, and superintended in carrying out the decisions as to what shall be produced. This problem arises from the fact that the technical methods of producing any particular good are seldom rigidly invariable; instead, there are usually several or many possible alternative methods, each requiring a different combination or organization of resources. For example, wheat can be produced on many different kinds of land, with different types of labor, and with different methods of tillage. If wheat is to be produced, then, it must be decided just how the factors are to be applied for accomplishing the desired result; and for each other product a like decision must be made. Such decisions will be conditioned by the physical principle that different combinations of the resources will yield different results in terms of quantity of product. In short, physical results depend upon the amounts and the proportions in which the various resources are used and the skill with which their use is coordinated. If in producing wheat we combine 1 acre of land and 10 days of labor, the result will likely be different from what we shall obtain if we combine 2 acres with 5 days of labor. And every difference in the combination employed, within wide limits, will likely yield a different result in terms of bushels of wheat.

Finally, fifth, it must be determined what use shall be made of the goods that flow from the productive process—in particular, how these goods shall be distributed among the individuals whose ends are being considered. If the society were organized along authoritarian lines, the problem of distribution might be solved by rationing the product among individuals. On the other hand, in a modern capitalistic society,

distribution is accomplished by fixing prices on the factors of production and disbursing incomes to individuals according to these prices in return for the factors of production under their control, these incomes constituting the purchasing power of the individuals for the social product. In a communistic society, the product might presumably be distributed more equally among all individuals or "to each according to need." In short, every society must make some provision for deciding how the social product shall be divided among individuals on the basis of its ends and values. Moreover, once the problem of personal distribution of the products is arranged, it must be determined how the goods are to be used by the individuals to whom they have been allocated. Should individuals be free in the use of those goods, or subject to various forms of social control? And if social control is exercised, what manner of control?

To summarize, every society—wherever located, on whatever scale, and however organized—must have some mechanism for solving these five basic problems. The social institutions by means of which this solution is accomplished together comprise the economic system.

There are, of course, many possible kinds of economic systems. Some of the more commonly discussed types are suggested by such words as socialism, communism, fascism, capitalism, and anarchy. As different as these systems are, they are alike in the respect that they all provide some solution to the problem of how economic resources shall be used. It is undeniable that so long as scarcity prevails, every society must have a form of organization for solving this basic economic problem, that is, must have an economic system.

Since the use of resources, in any society, must be controlled by means of a set of institutions known as the economic system, it becomes clear that the precise manner in which any given society uses its resources will depend upon the type of economic system it possesses. For instance, the use of re-

sources in a capitalistic society would be changed enormously if that society should adopt communism although some devices might be retained. Even minor institutional changes within the general framework of capitalism would have profound influence upon the use of resources—for example, minimum wage laws, progressive income taxation, prohibition of alcoholic beverages, religious taboos on the consumption of certain foods, the performance of sacrificial rites, monasticism, increase of the school-leaving age, reduction in working hours, changes in fashion. Thus the various influences that shape the character of economic systems are, in a real sense, ultimate determinants of the use of resources.

### THE MORAL BASIS OF ECONOMIC ORGANIZATION

We have seen that social control over the use of the means of production is necessitated by the existence of scarcity and by the overwhelming advantages of division of labor and specialization. The actual social organization by means of which this control is carried out is called the economic system. It consists of a large body of moral codes, practices, customs, rituals, and laws whereby the conduct of individuals, relative to the use of the means of production, is regulated.

The controls exercised within the economic system are of two types. First, and most important, they consist of all the educational processes whereby individuals acquire and are conditioned to the socially accepted behavior patterns and system of values. Second, they consist of formal rules which are enforced through potential or actual application of physical power—power that may be exercised in a variety of ways.

In an economic system which is to operate smoothly and with a minimum of conflict and violation of behavior norms, it is necessary that a large majority of the people believe in the system—believe that it is morally good and practically

desirable. Thus, in a firmly established economic order, the values of the people become so attuned to the prevailing economic relationships that it seldom occurs to them to question the existing arrangements. The system seems to them something natural and inevitable—like the climate or the terrain. Under such conditions, the people are often not even aware that they are engaged in a competitive struggle or that their several interests are fundamentally in conflict, and are therefore almost oblivious of the social controls that guide the use of the means of production.

On the other hand, in a society where values are not in complete accord with the system, where some individuals and groups feel that they are getting less than their share—or that they ought to have more than their share—"spontaneous" social control through the values and attitudes tends to become precarious. Society then splits up into factions that are in conscious opposition—for example, the landed aristocracy against the bourgeoisie, the farmer against the manufacturer, the laborer against the capitalist-owner, nation against nation—and planned economy advocates against free-enterprise champions. And these factions strive to achieve modifications of the economic institutions—the rules of the game—which will protect or strengthen their competitive positions. The factions may work through existing governments, hoping to wield enough pressure—perhaps through propaganda, bribery of officials, or the like—to obtain their ends peaceably. If unsuccessful in this effort and if sufficiently powerful, they may seek their ends by threats of violence, or even, as a last resort, by actual use of physical force in opposition to the established order. In such circumstances the underlying competition, formerly obscured through a system of widely accepted social controls but nevertheless present, breaks out into actual or threatened physical violence.

Thus it becomes apparent that the problem of controlling competition, as a means of achieving order and stability, fre-

quently raises questions as to what kinds of controls should be imposed or in whose interests the controls should be exercised.

The fact that we happen to live at a time when competing economic groups and nations are contending for power should not, however, blind us to the fact that during long periods of history the economic system has been comparatively stable. Values and attitudes have been reasonably conformable to extant economic arrangements, and the conflict of economic interests has therefore been more or less submerged.

At any given time there may be contending groups within the society, each seeking to maintain or establish an economic system in its interest. If contention exists, it does not follow, however, that economic order under a set of established controls over the use of the means of production does not exist. In the very midst of the struggle, at least until it takes the extreme form of physical violence, there is some semblance of an economic order which solves the problem of the disposal of resources in one way or another. Perhaps this solution is not in complete accordance with the interests of some groups, but nevertheless it is a solution. Thus, not only in times of social harmony but also during conflict, economic life within a politically unified society takes on a characteristic pattern and is organized in a more or less orderly manner. Insurgent elements are suppressed, and when conflicts do occur, machinery is usually available for their settlement.

As the lack of unanimity in values and attitudes becomes more and more pronounced, the use of force as a means of social control must become increasingly significant if the existing order is to be maintained. Without rigid compulsion, the discontented elements will no longer abide by the established behavior norms. In such circumstances the maintenance of the system may be said to depend on power; and the system is essentially unstable since opposing factions seek to overthrow it. It can be maintained only so long as those supporting it can control the instruments of power. Once they

lose this control, the existing economic order will crumble, and a new class, based also on power, will gain ascendancy. It may be safely asserted, however, that any system of economic controls resting principally on power will be highly precarious. For the system to be stable and smooth in operation, it must depend ultimately upon favorable values and attitudes on the part of a large portion of the population. On the international level, controls based upon power alone are likely to be both implemented and challenged by war.

### *THE PROBLEM OF WORLD ECONOMIC ORGANIZATION*

It has been pointed out that scarcity leads to competition, which is likely to take violent form unless subjected to social controls; and it has been shown briefly how, within a politically unified area, such social controls are established, maintained, and upset. Competition, however, operates not only among individuals and classes within unified social groups, but also among different social groups occupying different territories and having diverse mores, customs, institutions, and laws. Here we confront a central problem of international or world economic order. This problem may be stated as follows briefly: Can a system of controls be devised which will make possible a world economic order in which the competition can assume peaceful instead of violent forms? Unless it can be devised, international competition must continue to be a game of power politics and war, and issues must ultimately be settled through violence rather than through the application of established rules.

The problem of attaining social controls and peacefully channeling competition is especially complex at this juncture. The great fascist powers have tumbled to defeat, leaving an economic vacuum. Remaining are several great powers, ranging on the spectrum from a modified free-enterprise capitalism

in the United States to communism or state socialism in the Soviet Union. In several parts of the world basically fascist economies still exist, despite the fall of Germany, Japan, and Italy. A number of colonial nations are also determined to resort to any methods—including tariffs, exchange control, and government monopoly—to protect their embryonic industrialization. In such a world, reversion to all the devices of economic nationalism is an ever-present possibility. Indeed, there is no definite historical evidence to prove or disprove the compatibility of such divergent systems within a world framework. A working arrangement, arising out of mutual necessity and the impelling force of world-wide technology and dispersion of resources, is the first prerequisite for even a precarious peace.

### *AN ATTEMPT AT ADAPTATION*

An interesting if limited attempt to implement such a working arrangement in a mixed and variegated world society was made at the Paris conference of the International Labour Organization, held in 1945. The traditional structure of the organization has been tripartite—each delegation has been composed of two government delegates, one employers' delegate, and one workers' delegate.<sup>3</sup> Since 1919, when the I.L.O. constitution was drawn up, the world's economic and social structure has been distinctly altered. During that period, of course, socialization and nationalization of industries have spread. Hence a Latin American delegate proposed that while there would continue to be two government delegates one should represent nationalized industries and state-controlled segments of the economy. If no socialization has taken place, both government delegates would represent over-all national policy. Under this proposal, there would be one employers' delegate representing private undertakings and two workers' delegates, one of the latter representing the national central



trade-union organization (if any), the other recommended by that union but belonging to a state economic undertaking. In countries which have no major private undertakings, there would be two workers' delegates, two government delegates, and one delegate specifically representing state enterprises. This suggestion was interpreted as a gesture toward the Soviet Union.

The representative of the Belgian government offered a similar suggestion including a 2:2:2 ratio, and also reflecting the organization of the domestic economies. The two employers' delegates would be managers of socialized ventures, or split between controlled and uncontrolled segments, or private employers in the older sense, depending upon the internal structures of the respective economic systems.

These proposals were passed on to the I.L.O. Working Party, and were not acted upon by the Paris conference. They represent, however, a significant attempt, in a very restricted sphere, to cope with some of the problems posed by divergent economic systems.

### INTERNATIONAL COMPETITION

International competition is a highly complex phenomenon—one that can by no means be explained solely in economic terms. Yet its economic aspects are highly significant and must not be overlooked. Here, as in the cases previously discussed, scarcity of the means of production gives rise to a clear-cut opposition of interest among different national groups.

The larger the proportionate share in the world's factors of production available to one nation, the less is, by virtue of that fact, available to the other nations. Each nation is in a position to gain from the others by one or more forms of predation, and each, always a potential object of attack, must be ready to defend its productive resources. Survival is a

function of power. However, in contrast with the competitive struggle within a given social group, there is no effective system of social control to keep the competition within the bounds of peaceful rules. The various groups do not agree on values (unless it be "to the victor belongs the spoils") and do not follow the same rules of conduct. Thus, except during the periods when order has been imposed through power (for example, during the heyday of the Roman Empire), international competition has taken the form of power politics and incessant warfare.

Competition at the interregional or international level was, among early peoples, a struggle for land and other natural resources—*Lebensraum* in the strict sense. Each group strove to extend the area of its hunting and fishing territory and its pastures and fields. And each was constantly on guard against the encroachments of its neighbors. Among many of these peoples, the prizes of warfare might be slaves (including wives) and booty in the form of capital goods. Thus, in essence, the competition took the form of a forthright struggle for the limited supplies of the means of production—land, labors, and capital.

In modern times, the competition may still be essentially of this nature except that some of the techniques are vastly more subtle and sophisticated. Nations are still interested in gaining control over more land and resources through extending their boundaries and acquiring colonies. They do not, however, usually drive out the population of the conquered territory, or permanently enslave the captives. Rather they become owners of a large part of the wealth of the conquered territory under the polite term "war indemnity." They also take concessions for themselves whereby their citizens can, by taking over resources and making capital investments in the territory, receive a share of its product. They also attempt to organize the industry of the conquered territory so that it will supplement, rather than compete with, the home econ-

omy. The conquered territory must supply goods, particularly raw materials, in which the home country is deficient; and it must buy, whenever possible, from the home country, thus protecting the latter from competition.

The competitive relations between nations are complicated by the fact that the ends sought are often dictated by the interests of certain powerful groups and classes within each nation rather than the interests of the nation as a whole. Thus, there is no doubt that nations have waged imperialistic wars in which the citizenry at large had little or no genuine economic interest. This truth in no way, however, alters the fact that such wars represent a part of the competitive process.

### CONTROLS AND CONSENSUS

If there is to be a world economic order, comparable to that existing at most times within politically unified societies, competition must be brought within the framework of a set of rules designed to bring about the peaceful mediation of conflicts. Two conditions are necessary if this requirement is to be accomplished. First, the values and attitudes of the peoples of the world must become sufficiently harmonious to make possible a reasonable agreement upon the rules to be applied; and second, agencies of cooperation and ultimately also of power must exist to enforce the rules.

To the extent that the peoples of the world come to share common values and attitudes, control will be made spontaneous and the need for overt enforcement will be minimized. The greater the disparity between the various value systems and behavior patterns, however, the greater will be the necessary reliance upon force. But if the peoples were so hopelessly divided on values and attitudes that the system could stand only through force, the world order would then be in most precarious balance and would likely break down whenever the malcontents could gain sufficient power. The

problem of world economic organization is, thus, partly a problem of establishing common values and attitudes, and partly a problem of establishing the means of physical enforcement. With these two bases, a world economic order, comprising established rules for the disposal of the means of production, could operate to confine competition within the bounds of peaceful rivalry and could prevent the outbreak of violence. Without these two bases, world economic order probably cannot be achieved and competition at the international level will probably continue to follow the familiar pattern of power politics and sporadic warfare, with policies for the maintenance of world order subordinated to the dictates of military strategy and economic warfare.

It may be appropriate at this point to raise a question as to whether the achievement of world economic order is feasible in the calculable future. In order to achieve the concentration of power required for world economic order, the world might either be dominated by one nation or a group of cooperating nations, or the nations of the world might limit or pool their arms and renounce the use of unilateral force. On the one hand, the Big [One... Two... Three... Four... or] Five might seek to impose some system upon the world, and through propaganda and education seek to create the values and attitudes that would make the system work and give it stability. On the other hand, the nations of the world can embark upon a mutual plan of collective security, such as the United Nations, providing there is sufficient unanimity of sentiment among the peoples. Such a collective organization, moreover, can engage in propaganda and education as well as cooperative economic and social ventures.

The choice between these divergent approaches to world organization will, of course, rest ultimately upon public sentiment. One factor that promises well for the ultimate achievement of international economic order is that the very advances in communication and transportation which have created the

need for world order have operated to bring about the steady development of greater cultural similarity among the peoples of the world. Thus many of the same factors which enabled national states to consolidate their domestic power may now lead to still broader controls. Since the national state would still exert tremendous power, especially over intranational affairs, loyalties could be broadened rather than destroyed. All things considered, world economic order seems now to be not completely beyond the realm of achievement.

The following chapters will be devoted to a clinical analysis of various historical and contemporary attempts to forge international controls and facilitate the eventual emergence of a planetary economy. These ventures will be examined, not as individual entities, but as a resultant of the continued and currently almost intolerable grinding interaction of modern science and technology against controls, attitudes, and institutions adapted to an earlier era.

#### WORKS CITED IN CHAPTER 10

1. For a full statement of the underlying theory, see Bertil Ohlin, *Interregional and International Trade*, and Gottfried von Haberler, *The Theory of International Trade with its Application to Commercial Policy*.
2. F. H. Knight, *Risk, Uncertainty, and Profit*, pp. 57-58.
3. This report of proposed changes in I.L.O. structure is taken from Ernest D. Hediger, "The International Labor Organization and the United Nations," *Foreign Policy Reports*, 22:70-79, June 1, 1946.

## CHAPTER I I

# GROWTH OF WORLD ORGANIZATION

**P**OLITICAL development in modern times has been dominated by nationalism; but there has been a parallel if heretofore less potent movement toward a world orientation. Internationalism on the economic, social, and political levels has been impelled by modern technology and by the new internal integration of modern nations, as well as by the compulsion of world war and atomic bombs. Yet there is little evidence that internationalism must "inevitably" replace nationalism as nationalism supplanted feudalism. Nationalism, particularly the full exercise of national sovereignty in international economic relations, has been growing rather than diminishing in recent decades. Even so, international cooperation has also grown, gradually; after World War I, the first truly world-wide and elaborate institutions of cooperation were established. That such institutions as the League of Nations were not sufficiently potent and solidly grounded to curtail the employment of unbridled national power is an important fact. Equally significant, however, are the historically astounding facts that such institutions could be established at all, and that new ones emerged at the close of World War II.

This chapter, dealing with the growth of world organization in concept and substance, will bring the story down to World War II. It will deal with the early proposals, with the emergence of international law, with Nineteenth Century alignments, and especially with such significant ventures as the League of Nations and the International Labour Organization that followed World War I. Chapters 12 and 13 will analyze contemporary world organizations, stressing the

United Nations, the World Bank and the International Monetary Fund, and the host of other political, economic, and social agencies currently functioning or projected. While many of the institutions evolved during and even before the interwar period are still functioning, Chapters 12 and 13 will be concerned primarily with the organizations that emerged during or after World War II.

### NATIONS AND INTERNATIONALISM

By definition, *international organization* consists of combinations by which nations or national groups work together in exercising authority upon the basis of consent. No international institutions yet developed have drawn directly upon the allegiance of peoples rather than upon the cooperation of nations. This distinction is at the heart of the divergence between international cooperation and federation on the one hand and "world government" as currently proposed on the other. Hence internationalism has in a sense been a creature of nationalism, the latter being long the prerequisite of the former. The grave opposition between the two movements began to appear after internal consolidation had been achieved and technology no longer had free reign under nationalism.

The empires of antiquity were scarcely examples of internationalism, since they merely employed sporadic coercion and did not basically refocus loyalties. During the Medieval period, cosmopolitanism rather than internationalism dominated thought.<sup>1</sup> This cosmopolitanism, superimposed upon political and economic localism, stemmed from the remnants of antiquity, from the secular influence of the Holy Roman Empire, and especially from the influence of the Church. It was manifested and accentuated by the Crusades, which involved the efforts of much of Europe. This Medieval cosmopolitanism broke down, however, largely because the necessary technological, economic, and social foundations did

not exist. This pattern of thought fell back before the political theory of the Renaissance, the inroads of the Reformation, and the growing sentiments of nationality.

### EARLY PROPOSALS AND SPECULATION

During the Medieval period, however, more than one proposal was advanced that heralded later attempts at international organization. Pierre Dubois, in the Fourteenth Century, wrote an interesting treatise *On the Recovery of the Holy Land*, in which he argued that peace among Christians was a necessary preliminary. Specifically, he advocated a European league of Christian prelates and princes, formed under the pope. Any Christian ruler waging war was to lose his possessions, and a common armed force and economic boycott were to be employed. This suggestion, with its strong religious flavor, was an interesting one to emerge from the Fourteenth Century. Dante, pleading for Italian unity, wished to go further and establish a state "coextensive with the known world and having dominion over all local states," ruled by a single prince.

In more modern times, a host of other proposals have been advanced,<sup>2</sup> of minor intrinsic importance but of some significance. In 1623 one Cruce, a Parisian monk, advocated that the ambassadors of the leading rulers and nations should convene continuously in some city, preferably Venice. They would there settle differences, the princes swearing in advance to execute the will of the majority and to pursue with arms those that opposed that will. The suggestion involved freedom and encouragement of commerce as well as general religious toleration.

The Duc de Sully, a minister of Henry IV, sketched in his *Memoirs* the so-called Grand Design, generously but probably erroneously attributed to his master. Europe was to be organized into fifteen states—six hereditary monarchies,



six elective monarchies, and three federated republics, "infidel Turkey" and "savage Russia" to be excluded. Elaborate regional and central councils were to be established to co-ordinate activities of these nations of roughly equivalent strength. A common military force was to be employed, and no more non-European colonies were to be sought.

William Penn, in 1694, wrote his *Essay Toward the Present and Future Peace of Europe*, in which he advocated a representative parliament in Europe. This plan was to include Russia and Turkey, and the number of delegates was to be based upon the size of the nations or states. The parliament was to avoid quarreling by using a round room "with divers doors to come in and out."

In 1713, at Utrecht, the Abbé de St. Pierre brought forth his *Plan for Perpetual Peace*, in three volumes. This involved a perpetual European Alliance, including a Congress and a "ban of Europe" implemented by an armed force raised at the common expense. Rousseau approved of this scheme but Frederick the Great emphatically did not. A century later, Napoleon at St. Helena maintained that one of his ultimate aims had been the consolidation and confederation of the great peoples of Europe. While this suggestion may have been designed to further the growth of a legend, and in any event was somewhat ambiguous, it is significant that he felt compelled to make it.

A host of similar proposals of greater or less magnitude were advanced over the centuries prior to World War I, but the foregoing examples should be sufficient to demonstrate a trend. True, these were "voices crying out from the wilderness," but they did manifest stirrings toward internationalism, both in their proponents and in their surprisingly wide audience. Many contained elements of race, or religion, or imperialism, but some strikingly anticipated Twentieth Century schemes. Such proposals attracted relatively scant considera-

tion from framers of policy, however, until nationalism ceased to be the ally of technology.

### *EMERGENCE OF INTERNATIONAL LAW*

Perhaps more significant than even these anticipations was the slow, painful, but unmistakable growth of international cooperation and institutions. Perhaps the most striking example, at least prior to the League of Nations, was the growth of so-called international law, arising from custom, convention, and consent. Grotius, who wrote his definitive work in 1625, was perhaps the first man to succeed in popularizing the idea of law among nations. In the following three centuries, remarkable progress was made in establishing international law in certain spheres.<sup>3</sup> Boundary disputes, maritime cases, and many other matters have been successfully handled under this body of law. Arbitration and conciliation have also registered minor but evident growth in the outlying provinces of international disagreement.

National sovereignty made possible the initial existence of international law, but has severely limited the sphere within which such law can function. International law appears to operate successfully in those spheres which involve either minor matters or little curtailment of national sovereignty. When strong nations find themselves directly opposed in what appear to be major national interests, international law has not often succeeded in averting a trial at arms. As long as international law continues to acknowledge the national community rather than the international community as supreme in all matters, it must be sharply limited in scope and effectiveness. The nation will continue to remain in that central position until national states become willing to modify their sovereignty in the international arena. The Nuremburg trials, analyzed in Chapter 12, represent an interesting and significant, albeit controversial, attempt to pierce the veil of

national sovereignty by fixing individual responsibility for aggressive war. Concurrently, however, national sovereignty waxes among the victors, and an international law based upon consensus, effective in both small matters and large and capable of bulwarking peace, has probably yet to emerge.

Such a system of law cannot, of course, develop in a vacuum. Even the functioning of a World Court, and perhaps ultimately of a series of international tribunals, can only facilitate the emergence of effective law. Basically, legal institutions and rules can function only as part of a complex of political, economic, and social institutions.<sup>4</sup> Unless a political superstructure built upon modification of sovereignty can be established, even courts, draft conventions, and treaties are of limited significance. Such a set of political institutions, in turn, must evolve in conjunction with a true world economy and a closer approximation to world-wide social consensus and understanding. All of these institutions and agencies are inherently interdependent.

Historically, such institutions have evolved slowly and erratically. Today, however, the technological base for more rapid evolution and more effective functioning of such institutions exists. This technological base has also rendered the dominant political institution of modern times, the sovereign national state, something of an anachronism. The effects of science and technology upon institutions, coupled with the compulsion to avoid World Wars III, IV, and their successors, may ultimately enable law to function in all matters on a world scale, as it now does within nations.

### NINETEENTH CENTURY GROPINGS

At the close of the Napoleonic era, the Congress of Vienna attempted to set up a federation which might consolidate Europe.<sup>5</sup> A "Concert of Europe" was to be operative, although this Concert was really merely the sporadic function-

ing of the balance-of-power principle. As Castlereagh replied to Parliament, "The Congress of Vienna was not assembled for the discussion of moral principles, but for great practical purposes, to establish effectual provisions for the general security." European nations soon broke into blocs, the system became somewhat rigid, and effective European cooperation was limited. Nevertheless, even the rather rigid balance-of-power system established at Vienna was probably the outstanding example prior to the Twentieth Century of international cooperation, and it brought much of the continent almost a century of uneasy peace. The functioning of the system was disturbed, of course, by its reliance upon empires in the process of disintegration.

Late in the century, as the pressure of new industrial systems caused instability and anxiety, new and significant institutions of peaceful cooperation were established. The first Hague Conference met in 1899, largely to forestall the piling up of armaments, and the second met in 1907. The Hague Court of Arbitration was established, the Nobel Peace Prize was created, and prospects for institutional cooperation appeared relatively bright. While, from our perspective, it seems that all of Europe must have been aware that a cataclysmic war of nations was impending, it is doubtful whether most Europeans were conscious of these developments. The Hague developments appeared to herald the broadening of the area of sovereignty. Meanwhile, widespread economic cooperation was developing and an embryonic international federation was appearing within the British Empire. In 1910 Theodore Roosevelt could suggest, in his Nobel Peace Prize Address in Christiania, Norway: "Finally, it would be a master stroke if those great powers honestly bent on peace would form a League of Peace, not only to keep the peace among themselves but to prevent, by force if necessary, its being broken by others."

## IMPACT OF WORLD WAR I

The first of the Twentieth Century World Wars produced a number of new or reborn national states, as well as a resurgence of national self-consciousness in several of the older belligerent powers. Yet the war also provided a powerful impetus toward international organization. The war itself had been an international enterprise, requiring the cooperation, albeit belated and reluctant, of the Allied belligerents. It also provoked a political, social, and economic upheaval conducive to the accentuation of change and the creation of new institutions.

During the era following the World War I, the apparent impasse between integral nationalism and modern technology impelled international organization on an unprecedented scale. The nation had long been the dominant political and economic unit in which solidarity was maintained by political allegiance, economic interests, and a common cultural background. Now appeared a trend, notable although not yet dominant, toward internationalism that could transcend nationalism and limit national sovereignty. As in the case of nationalism, this internationalism also assumed various ideological forms: humanitarian, social reformist, pacifist, and economic. *Humanitarian internationalism* has emphasized the need for some common ideas and culture patterns, which could eventually bulwark a common civilization. *Social-reformist internationalism* has sought for cooperation in raising the status of the masses of the various countries as a basis for peace. *Pacifist internationalism* has been a movement to promote universal peace by using compulsory arbitration of conflicts, international courts, and similar devices. *Economic internationalism* has assumed, in the main, that relatively unimpeded trade and monetary cooperation are prime necessities in the establishment of a world economy. Many inter-

national movements have contained, of course, a combination of these elements.

### *THE LEAGUE OF NATIONS*

The movements toward international organization that followed World War I can also be catalogued, probably more meaningfully, as those having a primarily geographic basis and those built upon functional foundations. Many of the more highly publicized ventures attempted to organize the world or groups of nations upon the basis of territorial existence. Some of these, such as the British Commonwealth of Nations, promoted cooperation among scattered but historically and culturally unified countries. Others, such as the Union of Soviet Socialist Republics, involved a federation of great areas territorially adjacent but culturally diverse. Other organizations, such as the Pan American Union, attempted loose collaboration without centralized controls on a hemispheric or regional basis. The most ambitious attempt at global organization on a geographic basis was the League of Nations.

After World War I, as is generally known, the most elaborate institutions and mechanisms yet set up to facilitate international cooperation and world peace were established. The League of Nations represented an attempt to implement political, economic, and social organization. The story of the League is well known—the defects in its machinery, its inability to apply force, its partial success, its ultimate disaster.<sup>6</sup> None the less, that such an organization could arise out of four years of bitter and prolonged war is extremely significant. Probably the balance between internationalism and nationalism during the 1920's was more favorable to the former than ever before in history—despite United States tariff policy and failure to enter the League, European frustration and discord, and the creaking machinery of the League. Though integral nationalism gained complete and crushing dominance during

the 1930's and thereafter, the League as a piece of international machinery set a profoundly important precedent. It demonstrated, to be sure, that international cooperation not built upon modification of sovereignty cannot survive crisis. It also proved that differences remain profound despite a planetary economy: social, religious, political, psychological, and others. Yet it also revealed the not inconsiderable force of the movement toward a reorientation of sovereignty in the world, and it provided a precedent, pattern, and warning for its successor, the United Nations.

### FUNCTIONAL ORGANIZATION

While such organizations as the League of Nations represented an attempt to organize the world on a geographic or areal basis, world-wide institutions on a functional or interest basis were also assuming new importance. With new instruments of transportation and communication, with interest groups transcending domestic boundaries, a host of such global organizations appeared in the period after World War I. These international associations covered almost every type of interest, whether economic, social, or something other. One classification features fifteen categories into which these major functional organizations fell, besides "miscellaneous," which includes 32.<sup>7</sup>

Political and international relations (including pacifism).....	48
Religion, humanitarianism, and morals . . . . .	124
Arts and sciences . . . . .	112
Education . . . . .	37
Student and university . . . . .	11
Medicine and hygiene . . . . .	50
Law and administration . . . . .	44
The Press . . . . .	12
Feminism . . . . .	26
Labor and the professions . . . . .	73
Agriculture . . . . .	26
Economics and finance . . . . .	13
Trade and industry . . . . .	66
Communications and transit . . . . .	45
Sport and tourism . . . . .	36

These organizations are of all varieties. Some have wide individual membership; some are themselves member-group associations with strong national units; some have a mixed official and unofficial membership; and still others are composed of government employees of the various nations acting in an unofficial capacity. Some forty-odd major public administrative agencies finally emerged. While these groups also differ in scope and influence, many of them have an effectiveness that is far from negligible. Thus, even those organizations that are not frankly propagandist serve to widen the area of cooperation between states. They also tend to break down barriers to common official action, and often become the source or nucleus of official international cooperation.

Many of the more significant international associations have functioned in the general economic realm. Many cartels, either private or government-sponsored, fall within this category.<sup>8</sup> A number of private trade unions have been established, many of them in the professions, such as the International Federation of Journalists, International Dental Federation, International Accountants Association, and many others. Perhaps the most important privately sponsored international labor organization was the International Federation of Trade Unions. In 1945, a new world trade-union federation was created to take the place of the International Federation, which had been virtually destroyed by World War II. The new organization, the World Federation of Trade Unions (W.F.T.U.), includes representations from 65 labor organizations in 56 countries, numbering some 66,759,000 organized workers.<sup>9</sup> While many of these labor organizations were established shortly before World War I, and a few date back to the late decades of the previous century, most of the more powerful of these associations came into existence after World War I. Perhaps the most revealing functional agency established after World War I was the International Labour Organization, founded in 1919.



### *THE INTERNATIONAL LABOUR ORGANIZATION—A CASE STUDY*

Although less widely publicized than the League, the International Labour Organization was perhaps of even more revolutionary character. The I.L.O. was the first outstanding attempt at functional world organization. In a world of interest groups as well as nations, an attempt was made to induce cooperation on behalf of labor everywhere. Hence the I.L.O. assumes an importance greater than would be justified by any actual accomplishments of the organization.

Because of this fact, a brief case-study analysis of the origins, character, accomplishments, limitations, and implications of the I.L.O. will be enlightening. This organization typifies, in a sense, a host of similar agencies, usually of lesser scope, operative in the interwar period. Currently, it may be of less popular interest and immediate pertinence than several organizations which have evolved or been created during or immediately after World War II. The generation that studies this book is probably more interested in and more acquainted with such agencies as U.N.R.R.A., the new World Bank and International Monetary Fund, and their likes, than in the I.L.O. Yet many of these newer world organizations (including many of the more important appendages and functional creatures of the United Nations), while of vast potential importance, were either designed primarily for wartime or emergency purposes or else have but recently emerged from paper status. The I.L.O., in contrast, was founded as a peacetime organization, with broad and sweeping objectives, and had nearly three decades of troubled existence by the end of World War II. It can thus serve as a historical exhibit of functional organization and perhaps also as both a guidepost and a warning marker for its newer counterparts.

*BACKGROUND OF THE I.L.O.*

In recent decades there has been a gradual increase in the international orientation of labor, despite the resurgence of nationalism. In the main, this movement toward economic internationalism has resulted from the increasingly worldwide character of the problems of labor, although the efforts of intellectuals and social reformers may have had some influence. A very early example of how the common problems of labor may stimulate international unionism or international organizations is found in the English labor movement between the years 1850-1860. During these years strikebreakers were imported from France, Belgium, and Germany to displace English labor. International unionism was proposed to prevent such playing of one group of laborers against another, thus making a domestic union's economic weapons ineffective. In the Twentieth Century, wages, hours, and working conditions have been appreciably influenced by international economic conditions. In even more spectacular fashion, unemployment has become a world-wide phenomenon, as few nations escape the ravages of world economic breakdown and the echo effect of depression and chronic unemployment in the major industrial nations.

Modern nations are interdependent insofar as trade and commerce are international and as the world has become a single economic unit. Social and economic problems can no longer be solved along national lines, and if peace is to be assured then cooperation in the economic field is imperative. Tariffs, monetary standards, and labor relations all have their universal connotations. A bank collapse in London or New York may easily precipitate a financial crisis in other countries. No one nation, regardless of its economic resources, can produce all of the commodities needed for its residents. Import and export of goods are necessary; and in response to the need to compete effectively in the foreign markets, low

production costs become the objectives of employers. As a result, labor standards are often reduced to a very low level and movements to elevate these standards are resented. This state of affairs led to a system of international regulation as a technique of solution, and something of the nature of international labor law is very slowly developing. At present there is some international labor legislation in the treaties and agreements made by the industrial countries. For example, France and Italy made a bilateral agreement covering labor protection in their commercial treaties. This problem also arose in France in its relation to England. As early as 1835, when France in her effort to compete with England resorted to low wages, French statesmen recognized that no permanent improvement of labor conditions could come without international cooperation. These agreements indicate that it is much easier to improve labor conditions if the same restrictions are operating in all countries.

Thus, world-wide competition and the organization of international markets have caused workers in many countries to learn that their interests are similar and interdependent, although nationalism has partially negated such attitudes. There has been much agitation for international unions and other means of protecting standards of labor on an international basis. It is now widely recognized that a degree of uniformity in labor conditions and regulations, whether in the domestic or the international realm, is needed in order to have industrial peace and equality. Experience in the United States, for example, clearly revealed that when competition and markets were local there was little need for national unions. As soon, however, as industry became organized on a large scale and markets were widened, national unions emerged.

This movement toward international cooperation in the labor sphere has been facilitated by at least two other factors. First, the phenomena of mass migration and improved methods of communication have resulted in the mobility of ideas and

the breaking down of isolation. As a result of increasingly widespread education, there has been an increasingly critical attitude toward traditional belief in the supernatural source of special rights and privileges.

Second, with the rapid growth of technology and an urban-industrial civilization, geographical ties and loyalties have been challenged by functional bonds and self-consciousness. Spokesmen for this new community of laborers everywhere have included political philosophers and practitioners, economic reformers, labor leaders, and socialist groups. On the assumption that cultural progress depends upon the welfare of labor, Mazzini in Italy, St. Simon and Fourier in France, and John Gray, William Thompson, and Robert Owen in England were interested in controlling labor standards internationally. The pleas of Owen were largely ignored by England because that nation had little economic competition in the Nineteenth Century.

The international Socialist organization has also had much influence in this development of international labor relations. Both the First and Second Socialist Internationals were concerned largely with international solidarity of labor, in order to elevate the status of workers. These socialist organizations contended that the masses had common interests, and that national governments and patriotism were devices used to enslave the laborers. The Internationals aimed at unity by creating a world-wide party of workers. Problems of interest to the Internationals were child labor, adequate wages, hours, night work, and one day of rest in seven.

### *FUNCTIONS OF THE I.L.O.*

In order to facilitate the trend away from exclusively national labor movements and to place emphasis upon international labor organization, the International Labour Organization was created in 1919. The Treaty of Versailles contained

certain labor sections, setting minimum standards that should be maintained for laborers throughout the world. These were considered necessary to the main objective of the League of Nations, which was permanent peace. This objective would be frustrated or retarded when the status of labor was based upon exploitation, hence it was considered necessary to regulate industry and labor internationally. Here was, in effect, an indirect attack upon feudalistic social structures. In order to transform this objective from a concept to a concrete reality the labor sections of the Treaty of Versailles made provision for an organization to channel international collaboration. Thus was established the International Labour Organization, not an integral part of the League but a separate organization. It was established with council, assembly, and secretariat—Governing Body, I.L.O. Conference, and International Labour Office. Though the two were separate, membership in the League involved membership in the I.L.O., and close structural, administrative, and financial bonds existed between the two organizations. This close relationship created certain rather difficult problems of realignment for the I.L.O. when the League was succeeded by the United Nations.

The I.L.O. is a world-wide organization in which the employer, employee, and the public are represented, and it considers industrial questions common to all. The principal assumption underlying the organization is that high labor standards place burdens upon any individual country that adopts them. Industries in an advanced country are at a disadvantage competitively in international competition with countries of less advanced standards, if the latter nations have borrowed a machine technology. The I.L.O. was organized to encourage the development of world-wide minimum standards of labor and to equalize labor conditions in order to equalize labor costs. The general principles governing the promotion of international labor legislation indicate the complexity of the problems confronting such an international

organization. Labor was not to be treated as a commodity or an article of commerce, and the right of collective bargaining for legal purposes was to be accorded to labor. Furthermore, laborers were to be given a wage adequate for the maintenance of a reasonable scale of living as this was understood in their country and their time. Emphasis should also be placed upon the attainment of the eight-hour day and the forty-eight-hour week, one day of rest in seven, equal pay for equal work for women, and regulation of child labor.

### *APPRAISAL OF THE I.L.O.*

An appraisal of the work of the International Labour Organization is quite difficult.<sup>10</sup> Its task has not been easy, in part because of the inevitable conflict between international labor legislation and domestic interest groups. Numerous draft conventions have resulted, however, dealing with such conditions of employment as hours, wages, compulsory labor, industrial diseases, employment of women and children, unemployment, placement of workers, and equality of treatment of races in industry. The organization has collected and disseminated vast amounts of statistical information relative to international labor problems. The I.L.O. has attempted, at least, to focus attention upon labor conditions that foster unrest and imperil harmonious international relations. It has sought, with somewhat discouraging results, to develop a world public opinion which could become a powerful control factor. The real significance of the I.L.O. may not be in the things that it can do, but in the fact that it has provided a focal point for attacking labor problems which were and are international in character. It is the first instance of a body organized officially to act on international labor legislation, and the first time that pertinent machinery has been created to handle universal labor problems.

*POSSIBLE EXPANSION OF THE I.L.O. CONCEPT*

Some contend that such domestic laws as the National Labor Relations Act and the Fair Labor Standards Act may be extended on an international basis. This development might mean international labor-relations laws, wage and hour laws, employment-service laws, and other types of prohibitive and regulatory legislation such as those that have been developing in the United States. True, it is evident that economic interdependence now holds on an international scale as compulsively as within a domestic economy. Labor conditions in one part of the world affect labor conditions in the United States, just as wages earned in one part of the United States affect the status of labor in other states. High wages and fair employment relations in other countries might accompany industrialization abroad and create potential markets for goods produced in the United States.

It is apparent, however, that any such program to further internationalize labor legislation would be confronted by serious obstacles. The realization of the goal may be made possible ultimately by social and economic forces in the world environment that make economic internationalism a natural development. In the meantime, there are many economic factors to be considered in the spread of international labor standards. Important among these are inequalities in the distribution of natural resources, the various proportions of capital to resources and population, divergent rates of technological advance, and variations in the ingenuity of management throughout the world. These forces have tremendous influence upon the wages and industrial conditions of workers, as well as upon the relative employment of land, labor, and capital. Even if the free-enterprise philosophy prevailed universally, wages and conditions of employment would be determined in the various regions by the natural resources therein, the type of labor supply available, and the ability of manage-

ment to use this labor and these resources. Where economies are feudalistic, and where attempts are made for reasons of military or economic security to insulate an economy, wage disparities will be enormous.

There are also legal and administrative problems that would be created if comprehensive labor legislation were attempted on an international level. In administration, some of the intricacies involved would not be different in kind, but only different in scope and complexity. Familiarity with the administrative difficulties in the functioning of the National Labor Relations and Fair Labor Standards Acts in the United States develops the feeling that the administration problems of international labor legislation would be numerous and baffling. Geographic distance, nationalistic attitudes, scales of living, and other disuniting influences would complicate administration tremendously. The highest degree of intelligence, as well as social consensus, would be necessary to enforce such laws.

### *ATTITUDES OF MANAGEMENT AND LABOR*

The attitudes of both management and labor are important in the functioning of any legislation whether it be national or international. Economic internationalism has been opposed in varying degrees by both of these groups. The majority of the employers in the capitalistic countries have opposed international labor legislation because of their belief in the adequacy of individual initiative. They contend, especially in the United States, that the labor standards are high even in the absence of legislation. Management also fears remote compulsion or international interference in the labor sphere. There is some basis for this contention because international trade unionism might either cause or prolong strikes by the mutual aid granted.

In general, labor has reacted somewhat more favorably than



management to such organizations as the I.L.O., which is interested in promoting international labor legislation, but there continues to be bitter opposition from within the ranks of labor. Particularly is this skeptical or hostile reaction evident when attempts are made to equalize scales of living internationally. Improvements in backward countries may seem to be at the expense of wages or working conditions in the more advanced countries. This feeling is evident in the attitude expressed by the American Federation of Labor when it indicated that it was interested in raising the living status of all workers as long as there was no lowering of the standards of the American worker.

There is some evidence that the leveling-up process may benefit not only the laborers in backward countries but also those in the advanced countries by making a potential market for goods. Perhaps labor's attitude would be modified if it were clearly understood that no absolutely uniform labor conditions are anticipated or possible. Differences in climate, habits, customs, and industrial traditions will continue to be important determinants of the various scales of living.

It is difficult for a worker, as for anyone else, to avoid being preoccupied with his own immediate concerns. His attention is focused upon demands that are local in nature and normally he is concerned with his own wages, hours, and conditions of employment. Workers in the more advanced countries have often felt it best to ally themselves with the employers in their countries against the rest of the world, and in so doing to share in the national advantages. During major strikes, when trade is often transferred from one country to another, the resultant employment opportunities are often grasped even at the expense of fellow laborers.

Finally, an important barrier to international consciousness is found in the cultural background of the people in the various nations. As mentioned previously, such factors as nationalism, traditions, racial prejudices, and types of thought

impede greatly the trend toward economic internationalism. These impedances are very evident in American industries, even during an emergency period when labor is scarce. Undoubtedly the problem assumes greater proportions when considered from a world point of view.

### *POSTWAR PROBLEMS OF THE I.L.O.*

Since the I.L.O., founded in 1919 and aligned with the League of Nations, is still functioning, it also furnishes an interesting example of institutional adaptation to changing circumstances. As was indicated in Chapter 10, several proposals have been made to change I.L.O. representation in such a way as to recognize increasing nationalization and socialization in the member states. Such proposals may demand further attention.

The organization is concerned not merely with problems connected with reconstruction and reconversion, but about such paramount postwar issues as full employment. At the Paris Conference, the Employment Committee reiterated the paramount importance of full employment, as had the Charter of the United Nations. More important, it attempted to find means of implementing this objective through international cooperation. The Committee's statement follows, in part:

... It is generally agreed that full employment depends on the maintenance of a high level of expenditure, the main components of which are private and public investments, private consumption, current expenditures by Governments and expenditure (by citizens of other states) on exports. The object of economic policy must, therefore, be to stabilize total expenditure as far as possible at a level ensuring full employment. In the transition period, however, there is a danger in many countries not that total expenditure will be too low, but that it will be too high in relation to the total supply of goods, with a consequent danger of inflation. Consequently, policy must be directed on the one hand to increasing the supply of goods and services and to pro-

moting their export from countries which need them, especially the devastated countries, and on the other hand to maintaining controls as long as the shortage exists.<sup>11</sup>

### *THE I.L.O. AND THE UNITED NATIONS*<sup>12</sup>

As was previously indicated, the I.L.O. was closely aligned with the League of Nations. The San Francisco Charter of the United Nations provides, however, that while all members of the United Nations are parties to the statute of the International Court of Justice, no such automatic membership follows for the I.L.O. or any of the host of other functional agencies. United Nations members can remain in the I.L.O., enter, or depart, as the case may be. The I.L.O., however, has sought to break its old ties with the League and to facilitate increasing participation by United Nations members. At the Paris Conference, Article 1 of the I.L.O. Constitution (pertaining to membership) was changed to facilitate entry. The procedure of application has been simplified, and United Nations members can enter the I.L.O. by informing the Director of their willingness to accept the Constitution of the organization, no two-thirds vote of the Conference being necessary to approve such application. Nonmembers of the United Nations, however, must still be approved by such a vote. These amendments to Article 1 were subject, of course, to ratification by three-fourths of the I.L.O. members. At the Paris Conference, finances of the I.L.O. were also set up on an autonomous basis, in contrast to former arrangements with the League.

The final relationship between the I.L.O. and the United Nations must be determined by a special agreement entered into by two agencies, prepared under the auspices of the Economic and Social Council of the United Nations and subject to approval by the General Assembly. On May 30, 1946, a draft agreement establishing the I.L.O. as a "special-

ized agency" was signed by the president of the Economic and Social Council and the chairman of the Governing Body of the I.L.O.<sup>18</sup> This draft, of course, awaited approval by the Council, the Assembly, and the I.L.O. Governing Body.

These amendments, draft agreements, and structural realignments are not of great intrinsic importance. They do, however, indicate that if an international agency or institution has inherent vitality and is performing a necessary function, mechanical adaptation does not present insuperable difficulties. The statute may be changed, as with the Permanent Court of International Justice; the constitution may be amended, as with the I.L.O.; or an agency may be scrapped as a separate entity. Yet the continuing functioning of such agencies, before, after, and often during World War II, indicates significant drives toward world cooperation and the widespread conviction that many political, economic, and social problems have become permanently supranational.

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2. *Ibid.*, pp. 133-154; also Howard Robinson, "Hitherto," *Toward International Organization*, pp. 1-29.
3. See E. M. Borchard, "International Law," *Encyclopedia of the Social Sciences*, Vol. 8. For some conception of the massive if limited volume of international law, note J. B. Moore's *A Digest of International Law* (8 vols.), 1906, or M. O. Hudson's *International Legislation* (7 vols.), 1931-1941.
4. See Chapters 12-14.
5. For an interesting contemporary reappraisal of the Congress of Vienna, read Harold Nicolson's *The Congress of Vienna: A Study in Allied Unity, 1812-1822*.
6. Benjamin Gerig, "An Appraisal of the League of Nations," *International Conciliation*, 369:303-316, April, 1941.
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plete listing, as of 1937, see League of Nations, *Handbook of International Organizations*.

8. See Chapter 7.

9. O. K. D. Ringwood and E. S. Hediger, "The Paris International Trade Union Conference," *Foreign Policy Reports*, 22:79-80, June 1, 1946.

10. For a more detailed analysis, see Smith Simpson, "The International Labour Organization: Retrospect and Forecast," *International Conciliation*, 369:317-336, April, 1941.

11. For the full text of this statement, see International Labor Conference, *Provisional Record*, Paris, No. 26, p. 1, November 2, 1945.

12. This concluding section is drawn largely from Ernest S. Hediger, "The International Labor Organization and the United Nations," *Foreign Policy Reports*, 22:70-79, June 1, 1946.

13. United Nations, Economic and Social Council, *Draft Agreement between the United Nations and the International Labour Organization*, May 30, 1946.

## CHAPTER 12

# CONTEMPORARY WORLD ORGANIZATION—POLITICAL

WITH the close of World War II and the advent of the postwar era, a new cluster of international organizations and institutions has emerged. The ill-fated League of Nations has been replaced by the United Nations. In the wake of the United Nations, a number of other organizations have been revived or newly established. The World Court has been re-established, under a new statute, to serve as the judicial arm of the new world organization. Several of the functional agencies of the interwar period, notably the I.L.O., have continued to function. In addition, a number of new and significant organizations have been established or projected. These include, of course, such highly publicized ventures as the International Bank for Reconstruction and Development, the International Monetary Fund, the Food and Agricultural Organization, and the International Trade Organization.

### *WORLD WAR II AND THE NEW ORGANIZATIONS*

This new and spectacular drive toward world organization was given much impetus by World War II. Since this was a coalition war, fought by a number of great and small powers, the framework of the United Nations was in part a result of wartime alliance. The war also facilitated cooperation along economic lines, since it proved necessary to pool shipping, allocate raw materials, and to produce and widely distribute food and munitions. Lend-Lease, initially a device by which

the United States aided her allies, became a world-wide system involving a host of nations both receiving and extending mutual aid. In the latter stages of the war, with the tide of battle ebbing away from devastated areas and hungry and displaced populations, the United Nations Relief and Rehabilitation Authority was established. Whatever the ultimate verdict as to the merit of U.N.R.R.A., it was an unprecedented example of concerted international effort to meet a specific economic and social problem. Not only did World War II create many organizations and patterns which remained, in part, at the close of the conflict, but it also created both tremendous needs and an intense compulsion to avoid another war of such magnitude.

Yet, while contemporary world organizations were given early form and added urgency by World War II, most of them also represent forces that far antedate the recent war. As was indicated in Chapter 11, the search for institutions set up on a world basis was well under way even as the national state was still fundamentally compatible with modern science and technology. As extreme nationalism became an anachronism, and the great wars of the Twentieth Century began, proposals were translated into cautious reality. After World War I, the League and its ancillary organizations were established, albeit some time after the actual close of the war. Significantly, the United Nations was set up, and its Charter drafted, before even the European segment of the conflict had ended. It is interesting to note that the now evident heavy emphasis upon economic and cultural institutions and co-operation is a notable change from the interwar attempt. While the I.L.O., narcotics control, and similar undertakings represented an early understanding of the importance of a stable economic and social order if peace was to be maintained, these agencies were very limited in scope. The establishment of such massive new agencies as the World Bank

and the International Monetary Fund indicates that the world learned a good deal from the uneasy 1920's and from the world-wide economic and financial collapse of the 1930's. Thus, while the recent war had a definite impact upon world organization, it was not the sole factor bringing such institutions into being.

### *THE NEW PATTERN OF WORLD ORGANIZATION*

Chapters 12 and 13 are to deal with the over-all structure of world organizations and institutions now emerging or about to emerge. No effort will be made to describe or analyze all of the scores of new political, economic, and social international agencies. Nor is any attempt to be made to fully describe or definitively analyze even the major organizations. All of these new institutions are interrelated and interdependent, and they cannot be examined as separate entities. These organizations must also be related, individually and collectively, to the world society and economy in which they operate. In short, these world organizations are meaningful and will survive only if they can transcend the paralyzing localism and cultural lag of our age. Potentially, world organization can either help to bridge the gap between technology and lagging human attitudes and institutions, or it can fall into this gap and be destroyed.

No water-tight compartments exist between organizations founded primarily to operate in the political as contrasted to the economic or social realms. All of them are designed to work toward a stable and peaceful world, which can only be achieved if the economic and social, as well as the political, climate is favorable. The decisions of the United Nations will effect the world economy, while the activities of such agencies as the World Bank will make easier or more difficult the functioning of the United Nations. As the world-wide



depression of the 1930's revealed, political and economic autarchy feed upon each other. Likewise, no sharp lines of demarcation exist between organizations built along geographic as against functional lines. In a world of nations, even the functional agencies have nation-states as members, although the I.L.O. has attempted to go beyond purely national representation.

Hence, although Chapters 12 and 13 will move from so-called political organization to so-called economic and social institutions, such a treatment merely facilitates analysis. The United Nations, as perhaps the cornerstone of the arch, will be placed in long-term perspective. Since the United Nations represents but one possible accommodation to our modern dilemma, other accommodations, whether compatible or not, may also emerge; some study concerning such related political developments as regional arrangements and the changing post-war pattern of empire will therefore be undertaken. As political organizations are thus evolving, significant and occasionally spectacular developments are also taking place in international law, as evidenced by the Nuremberg trials, on which there is a brief comment. As the concluding section of Chapter 12, the search for an effective means to control atomic energy will be presented as another short case study of the underlying problem. Here the long-standing clash between technology and institutions is stark and sharply focused.

In Chapter 13, the primary economic and social organizations will be studied. After a brief review of such wartime agencies as Lend-Lease and U.N.R.R.A., implications of the newer and more permanent organizations will be explored. Thus, our attention will move from the United Nations Economic and Social Council, the "holding company" for specialized agencies, to the major specialized or functional organizations. These include the United Nations Educational,

Scientific, and Cultural Organization (U.N.E.S.C.O.), the United Nations Food and Agricultural Organization (U.N. F.A.O.), the International Bank for Reconstruction and Development (World Bank), the International Monetary Fund (World Fund), and the International Trade Organization (I.T.O.)

The achievement of detachment or perspective concerning the new organizations launched during or shortly after World War II is admittedly difficult. These new attempts to forge world institutions arose, however, not from the war itself but primarily from the convulsion and maladjustments which created the war. Thus, even in the midst of the difficult and often bleak and frustrating process of initially establishing a few international controls, an historical and analytical frame of reference can be found.

### *THE UNITED NATIONS AND THE VETO*

The League of Nations, now officially liquidated, has been replaced by the United Nations.<sup>1</sup> The League has donated not only its buildings but also both its experience and its unhappy memories to its successor. The United Nations has exhibited some weaknesses, some of them at least superficially structural and procedural.

Frequent recourse to the veto power, whatever the justification, has doubtless tended to highlight the sovereignty of the big powers and obscure the well-nigh universal desire of small nations for some role in the world community. Yet the veto power and all of the other structural devices of the same type are important not as mechanisms but as significant manifestations of lingering reluctance to abandon long-standing reliance upon national sovereignty.

Actually, the veto power represents a liberalization of the voting procedure in the Council of the League of Nations.

On the League Council, substantive questions, with few exceptions, required a unanimous vote, including even disputant parties if they were Council members. On the Security Council, seven votes can decide an issue, although on certain questions all five permanent members must agree. This procedure was designed not only to facilitate original entry of all major powers into the United Nations, but also to insure that a nation should not be called upon to fight or support a war without its own consent.

As long as major powers insist on sovereignty, the alternative to a limited veto might also be distasteful. If a major nation withdrew from the United Nations in lieu of exercising a veto, the net effect might be worse than even the overt big-power dominance reflected by the veto. At least, the nations involved remain in continuous contact, both diplomatically and on a personal level, after a veto has been cast.

While this voting procedure would be an intolerable anachronism in true world government, it may have served to prevent repetition of a fiasco such as the failure of the United States to join the League of Nations. If the veto were used only on important substantive matters, it would probably not be such a widely discussed issue. Its too-frequent use reflects a certain continuing distrust, as well as a renewed emphasis upon national sovereignty. If nations come to place increased reliance upon the United Nations, and a reasonably stable and peaceful era follows, fingers on the veto trigger may be less nervous and questions of organizational mechanics will assume their rightful secondary importance. This point of view was stated by Sir Alexander Cadogan, representing Great Britain, who said: "A world organization to control international lawlessness is as essential as traffic regulations to control our modern traffic. Yet all the traffic lights in the world won't cure the problem of the driver who isn't looking where he is going, or who doesn't care."

## *THE UNITED NATIONS AND THE PEACE SETTLEMENT*

The United Nations is also handicapped in its attempt to develop as an effective instrumentality for maintaining peace by the early inability of the victorious powers to forge a peace settlement and draft peace treaties. This inability, of course, stems from the same basic causes as do the early difficulties of the United Nations. Secretary-General Trygve Lie commented on the resultant awkward position of the United Nations in his first report on the work of the organization, released in August, 1946. "The United Nations was not designed to perform the functions of a Peace Conference nor was it equipped to act as a referee between the Great Powers. It was founded on the basic assumption that there would be agreement among the permanent members of the Security Council upon major issues."

### *ELEMENTS OF UNITED NATIONS STRENGTH*

Yet, despite its faltering first months and years, the United Nations has elements of real strength. It has enlisted the support of all the major victorious powers, in sharp contrast to the League. Some nations support the United Nations with apparent reservations; others regard it, in Bevin's words, "as the prelude to further development"; and several, including the Soviet Union, do not belong to all the major ancillary or specialized agencies aligned with the United Nations. Yet all belong to the United Nations, are necessarily working together on a day-to-day basis, and have assumed common obligations. Many people, in all nations, who believe that the United Nations is a defective instrument for peace and must eventually be replaced nevertheless do agree that it may at least facilitate working arrangements that will allow time for more lasting institutions to be evolved.

It also provides, at least in its Charter, for implementation and enforcement of decisions by force as well as other sanctions. It has also learned much from the experience of the League, especially from its abortive attempts to solve major problems and maintain peace. Perhaps the greatest element of strength, however, is simply the terrible compulsion upon the nations of the earth to avoid World War III. Alternatives to the United Nations exist, of course, in isolation, autarchy, imperialism, balance of power, and spheres of influence. Indeed, each of these courses is still being followed by many nations, large and small, as part of a dual foreign policy also embracing the United Nations. These courses, historically unstable and scarcely conducive to permanent peace, probably do not offer much more assurance of peace when linked with the atomic bomb.

### *THE UNITED NATIONS AND WORLD CONSENSUS*

The United Nations is confronted, in short, by the same vicious circle that has proved so puzzling to the world in recent decades. World organization must ultimately rest, as does local, state, and national government, upon consensus and consent. Political organization cannot be foisted, at least without constant recourse to coercion, upon groups and peoples that do not have some sort of a common society. With the advent of modern technology and an embryonic world economy, part of the foundation of such a society has been laid. Yet cultural lag in all its forms remains, and barriers of attitude and custom linger, as well as economic and political barriers.

On the other hand, unless some form of organization is created, however tentative and incomplete, this process of achieving consensus and a common frame of reference will be long retarded. World political and economic agencies, while hindered and impeded by nationalism, also have some

effect upon it, however slight at the outset. This circle must be broken, but the first years or perhaps decades of the breaking must of necessity be precarious. Ultimately, the verdict as to whether the United Nations will resolve the current real and/or apparent conflict of national ends probably depends upon the strength of the current compulsion to maintain peace. If peace is really the prime objective, rather than the maintenance of sovereignty, the United Nations may be granted its vitally needed first decades.

Meanwhile, the United Nations does provide a parliamentary mold, which forces discussion, continual interaction, recasting of issues, and the focusing of at least some segments of world opinion and moral judgment. While statesmen have continued to owe primary loyalty to national interest, this new environment is a tangible reminder that ultimate national interest may not always be served by isolation and all-embracing national sovereignty. While the mechanism creaks, as it is burdened by conflicts of attitude and interest, it does include at least the embryonic form of the instrumentalities which are found in most domestic governments. As Secretary of State Byrnes stated, these are the organs through which "mankind has achieved the establishment of order and security as between individuals and families and communities."

Perhaps the greatest force bulwarking this new organization in an uneasy and often conflictive postwar world is the drive toward avoiding a repetition of World War II, or rather, a far more complete disaster brought by World War III. With technology still improving, and with uranium, plant capacity, and scientific ability sufficiently scattered throughout the world to put the atomic bomb within the grasp of several nations, such a conflict staggers a weary imagination. Philip Noel-Baker, head of the British delegation at the Assembly, concluded his opening address: <sup>2</sup>

Why do fear and despondency pervade the world today? Do peoples or governments still believe that, because we have differ-

ing social systems, war must come some day? Surely we put all that behind us when we signed the Charter. . . . The peoples think in terms, not of differing social systems, but of aggression against our common laws. . . . They cannot comprehend why governments find it so difficult to agree. They are longing for the end of fear. . . .

I hope that this Assembly . . . will hear the voice of these anxious, waiting men and women, who ask for rest and peace.

### *THE UNITED NATIONS AND WORLD GOVERNMENT*

Much of the opposition to the United Nations has come, not from those who fear that national sovereignty will be too restricted, but rather from those who believe that it will not be restricted enough. Many look upon the United Nations as a flimsy and fragile arrangement, or as a multilateral pact with as yet no effective legislative body and no way of escaping the paralyzing effect of the veto. The proponents of so-called world government as the alternative do not agree as to its scope. Suggestions range from gradual reform of the United Nations to a world without passports or meaningful boundaries and in which a world government possessing effective legislative, executive, and judicial powers would receive full allegiance from peoples rather than from nations.<sup>8</sup>

World government, in any of several forms, has much logical cogency and appeal. In a world where technology has become global, where aircraft can go anywhere on the earth's surface, drop atomic bombs that will obliterate a city, and return without refueling, institutions with the same universality and of the same absolute character may well ultimately emerge. Short of the impact of atomic war, which the United Nations seeks to prevent, it appears unlikely that moving directly to this position is either feasible or sound. In the contemporary world, even an effective United Nations will be an outstanding achievement, and subordinating national

sovereignty on all levels and at all points appears virtually impossible. The major powers would not join such an organization, since they could not reserve domestic powers and probably could not maintain military establishments. The veto privilege of the large powers, ultimately founded on military strength and political and economic dominance rather than on a Charter provision, will continue to exist for a time regardless of abrupt changes in framework of world organization.

Beyond the question of feasibility, it is even dubious whether an attempt to create ultimate world institutions at this stage of world society would attain the desired results of peace and stability. While political institutions must sometimes be established on precarious foundations, they must also nevertheless rest to some degree upon underlying consent and upon cultural and economic institutions. Until the cultural and economic climate is somewhat more conducive to drastic changes in political institutions than it is today, such changes might be abortive and self-defeating. That statement is not a rationalization for timidity or the abandonment of world government as a logical ultimate end. It is simply a reminder that institutions must evolve and grow, rather than emerge from a test tube, and that they grow and mature together. The rate of that growth, however, may well be far more rapid than could have been envisioned a decade ago.

### REGIONAL ARRANGEMENTS

The organization of the United Nations has not precluded the establishment of regional groupings. Actually, the Charter provides for the functioning of regional arrangements and agencies, insofar as they are compatible with the objectives and functions of the United Nations. While blocs and regional alignments can be antithetical to world organization, they can also be a source of strength and represent a transition toward effective organic organization on an international



level.<sup>4</sup> Many political, economic, and social maladjustments could be prevented by action on a regional, continental, or hemispheric basis, and some problems brought to the United Nations can be solved on that basis. Yet if such regional groupings come to discriminate or regard themselves as alien or hostile to other groupings, they can do serious damage to the functioning of world organizations. Regionalism as a guise for bilateralism or autarchy and blocs as simply a reflection of balance-of-power represent retrogression.

### *A United Europe*

Examples of both the potential usefulness and the possible dangers of regional alignments are not difficult to find. As was indicated in Chapter 11, the concept of a united Europe, sometimes termed a United States of Europe, has long attracted widespread support.<sup>5</sup> Immanuel Kant, Victor Hugo, Aristide Briand, and Winston Churchill have proposed such unity, Churchill having claimed a quarter of a century ago that the idea would someday burst into flame as "spontaneous recognition of the obvious." The Nazi exploitation of Europe, while used to further the military power of Germany and at the expense of the peoples in conquered or satellite lands, demonstrated once more the productive might of a unified Europe. Constant unrest, sporadic violence and war, widespread poverty, and desperate attempts to maintain a balance of power have long testified to the results of disunity. The present situation, with Germany dismembered, Europe divided into two halves, and many great traffic arteries cut, is an even more graphic reminder.

Hence attempts are being made to reopen the Danube, to bring Germany back into being as an integral part of the European economy, and to handle certain problems of reconstruction and relief on a continental scale. The European Coal Organization and the European Central Inland Transportation Organization are cases in point, and the United

States has recommended that these agencies be taken over and made permanent in a European Economic Commission. Concurrently, pairs or groups of nations, such as Belgium and the Netherlands, have either set up or proposed the establishment of customs unions. To the degree that customs unions are simply a framework for bilateral trading, of course, they could be of dubious value to the establishment of continental unity.

To establish a united Europe, while apparently easily compatible with the objectives of the United Nations, is far from easy. Ancient ethnic, economic, and social differences must be sublimated, in addition to tremendously powerful nationalistic and patriotic sentiments and attitudes. More troublesome even than these factors, at least at the moment, is the problem of persuading the major powers on the European continent that such a movement toward a united Europe is not anti-Soviet, nor in general another implementation of balance of power. Prolonged economic instability resulting from a disrupted continental economy, and the prospect of breeding another war in the wake of this one, may result before such fears and suspicions can be outweighed.

It should also be noted that, even with a federated Europe, the underlying concept could be distorted and perverted. If a united Europe should resort to autarchy and trading on a restricted and discriminatory basis, it would cause major dislocations in the world economy. Making Europe a modified free-trade area, for example, would not guarantee a comparable policy toward the remainder of the world. If Europe as an entity attempted to maintain its own self-sufficient economy, even on a continental basis, then lower scales of living, unemployment, and potential war would result.

### *Western Hemisphere Organization*

A second, rather divergent, example of regional arrangements involves the Western Hemisphere. The Pan American

Union, nearly sixty years old, is perhaps the oldest existing regional organization. The Union possesses very limited powers and functions, since it files treaties, conducts research, acts as sponsor of hemispheric conferences, and serves as general clearing house. During depression and war years, the conferences sponsored or encouraged by the Union facilitated hemispheric collaboration on an unprecedented scale.

The Pan American Union, and Western Hemisphere cooperation generally, do not seem inherently incompatible with the United Nations. As long as it seeks to promote freer trade, high levels of employment, and maintenance of peace in the hemisphere, the Union would seem to implement rather than conflict with world organization.<sup>6</sup> Yet again, both the difficulties and the possible perversions should not be minimized.

Western Hemisphere cooperation runs afoul of political, economic, and social contrasts and conflicts comparable to those found in Europe.<sup>7</sup> The hemisphere contains divergent culture patterns, sometimes being divided into Anglo America and Latin America. Yet even Latin America has a baffling variety of cultures, for Spanish, Portuguese, French, and other influences have mingled with indigenous cultures. The hemisphere also contains various political patterns, with a republican form disguising all gradations from democratic to authoritarian regimes. Canada, one of the major nations in the Western Hemisphere, is a member of the British Commonwealth of Nations and has not been a member of the Pan American Union. Economically, the contrasts are even more striking. The hemisphere contains two major industrial powers, two or three embryonic industrial powers, and a host of extractive economies. The economic systems also range from free-enterprise capitalism through modified state socialism to *fascist regimes*. In terms of foreign trade and investment, one region is oriented toward the United States, one toward Europe, and two divided between the United States and Europe.

Not only is Western Hemisphere cooperation confronted by political, cultural, and economic divergencies, as spectacularly manifested by Argentina vs. the United States, but it also poses broader questions of policy. For example, hemisphere autarchy would have the same international effect as continental autarchy in Europe. Again, the large number of sovereign nations, of varying sizes and importance, poses a problem even in the United Nations. With half a hundred nations in the United Nations, two-fifths of the votes are controlled by the nations within this hemisphere. In terms of population, volume of trade, over-all industrial development, and other criteria, this representation is disproportionate. If concerted regional action in the United Nations gives point to the belief that this group of nations has formed a power bloc or follows the lead of a single power, friction and resentment are inevitable. This situation is confined to the Assembly, of course, since only one of the five permanent members of the Security Council is a nation in this hemisphere.

### *CHANGING STRUCTURE OF EMPIRE*

As noted in earlier chapters, the economic basis of the colonial system has been weakened by the spread of industrialization, widespread unease at the vulnerability of extractive economies to world depression, and the spectacular growth of nationalism in colonial areas. This process has been at work for at least a half century but was stepped up during the interwar period, especially during the depression, and is now everywhere evident. Imperialism as such is by no means dead or even dying—it has appeared in new forms and guises after World War II. A very evident movement is under way, however, toward the upgrading of former colonies or possessions either to dominion status or complete independence. This movement has occasionally been voluntary, but more

often it has been compelled by the insistence of the colonies. In any event, several empires have evolved, gradually or suddenly, into associations or commonwealths of nations. These groupings, rather than being essentially vertical or hierarchical in character, have something of the appearance of a small-scale League or United Nations.

### *The British Empire and Commonwealth of Nations*

This process of increasing independence and voluntary association of the member units has been going on for decades within the British Empire. Under statutes drafted in the interwar period, the former empire assumed a twofold structure. A number of outlying areas remained under more or less direct control from London, but the major dominions assumed full stature as completely sovereign, independent nations. The reality of this new status was demonstrated by the neutrality of Eire, the close vote in the Union of South Africa as to entering the war, and the increasingly evident economic ties between such dominions as Australia and Canada and the United States. After the close of the war, the independent status of the dominions was again demonstrated by the outspoken tactics of Australian spokesmen and the bitter dispute between the Union of South Africa and India.

World War II accentuated this tendency to loosen the political ties of empire. India, after prolonged negotiation, has evidently emerged from her somewhat ambiguous status and is now moving rapidly toward full independence. Many another former colony or mandate, while not achieving dominion status, has moved toward greater autonomy as a result of the economic, social, and political ferment following the war. This continued process of weakening long-standing imperial ties has paradoxically strengthened in some ways the resultant association of sovereign states, the British Commonwealth of Nations.

*Ferment and Change in Other Empires*

While world-wide scrutiny upon India, Burma, Hong Kong, and Palestine has highlighted the rapid change and partial dissolution of the old-style British empire, similar changes within the French and Dutch empires should also be noted. Under the pre-war French system, some sections of the "empire," notably in Africa, were considered an integral part of Metropolitan France, while outlying areas such as Indo-China were merely colonies operated by remote control. Unrest and open violence in French Indo-China have resulted in a drastic reversal of this position, with an autonomous state-within-a-state being nominally recognized.

The Dutch empire has been even more affected, since Indo-China was never as important to France as Indonesia has been to the Netherlands. After a period of open warfare in the Indies and a series of difficult and initially abortive negotiations, a new arrangement was worked out. In this arrangement a rough equivalent to dominion status was devised, although the status of the islands is somewhat more complex than that term denotes. In any event, the voice of the new Indonesian Republic is strong enough to insist that many foreign concessions be renegotiated. While this dominion or quasi-dominion arrangement is apparently to spread throughout the empire, it means relatively little in the small, none-too-prosperous Dutch areas in the Caribbean and elsewhere.

Meanwhile, the Philippine Republic has attained full independence, although commercial and economic ties with the United States remain strong. The demands of Alaska, Hawaii, and Puerto Rico for statehood continue to be registered, although these would join as integral units in an existing sovereign state rather than as independently sovereign nations.

An interesting insight into this shrinking and change of character of many of these great empires is afforded by exam-

ining the signatories to the United Nations Charter. Professor Quincy Wright has noted that of the fifty original signatories, thirty-three were dependencies in the middle of the Eighteenth Century, twelve were dependencies in the middle of the Nineteenth Century, and six were dependent in 1930.

### *THE TRUSTEESHIP SYSTEM*

A new element has been injected into this situation by the trusteeship system set up under the Charter. This system is presumably to apply not only to former mandates, but also to many or all former Italian and Japanese colonies. Mechanically, the new system is probably better than the mandates system.<sup>8</sup> The Trusteeship Council, while perhaps less objective than the old Permanent Mandates Commission, will have greater prestige and authority. The Trusteeship Council also has greater rights of inspection, except in certain cases where "security" is involved; is directed to place more emphasis upon welfare of native populations; and directs a somewhat more flexible system. Here again, however, can be noted the futility of examining mechanisms as such rather than in context. The trusteeship system will operate successfully only if expansionist and nationalistic tendencies among the nations are checked.

The determination of the Union of South Africa to annex adjacent mandated territories with or without consent has not only stirred up bitter resentment but has rendered the whole new system vulnerable to cynical disregard. The disposition of many former Japanese possessions and mandates has raised a somewhat similar although probably more complicated problem. These islands would normally be placed under the trusteeship plan, although perhaps with provision for United States administration and due regard for security. Yet important segments of opinion, especially in military

circles, have held that some of these islands are permanently necessary as outlying bases and hence subject to annexation. In the process, broad questions have been raised concerning the spirit vs. the letter of the Charter; the attitudes of Australia, New Zealand, and other Pacific powers; and the economic and social welfare of the native peoples. The whole matter has dramatized again the fact that national interests will impinge upon any system, however structurally arranged. Yet the necessity of airing such problems internationally has already had an appreciable effect upon some hitherto frankly annexationist plans.

### *NUREMBERG TRIALS*

As new international organizations are being founded in an attempt to maintain the peace and limit national sovereignty, significant developments have also taken place in the field of international law. The old Permanent Court of International Justice has been reconstituted as the International Court of Justice of the United Nations.<sup>9</sup> As a gesture, steps have been taken to make the long-standing dispute between Great Britain and Guatemala over British Honduras one of the first cases brought before the new court.

The most spectacular international legal development of recent years, however, was the Nuremberg trials. The outcome of these trials, and the resultant deaths of several of the defendants, is of secondary importance contrasted to the scope and implications of the trials as such. Hundreds have been tried and are being tried as "war criminals" under rules of international law concerning treatment of prisoners, violation of the laws of war, and similar standards. The Nuremberg trials, however, have attempted to establish the principle that the starting and waging of aggressive war is in itself a crime and that individuals can be held directly responsible. Thus, the



trials attempted not only to forge legal sanctions against war but also to penetrate beyond the sanctity of sovereignty in punishing individual aggressors.

The counts in the indictments presented before the International Military Tribunal were as follows: Count 1—Conspiracy to commit acts named in the other three counts. Count 2—Crimes against the peace, namely: planning, preparing, initiating, or waging aggressive war. Count 3—War crimes, namely: violations of the laws or customs of wars. Count 4—Crimes against humanity, namely: murder, extermination, enslavement, deportation, or other inhumane acts against any civilian population, before or during the war; or persecutions, political, racial, or religious. Of the above, Counts 2 and 4 are most significant in terms of the drastic changes in international law which the trials were designed to bring about. While those sentenced could have been punished under pre-war concepts of war crimes, several of the defendants were also held guilty of one or more of Counts 1, 2, and 4.

Both popular and legal opinion of the trials, indictments, and verdict have reflected sharp disagreement. On the one hand, it is widely believed that the trials have now established a precedent for the punishment of those who start aggressive war. Whether or not these trials were *ex post facto*, it is argued, the enormous gains to be realized from stripping away legal recognition from war may justify the means. The suggestion is also advanced that by holding individuals directly responsible to an international court, a partial foundation has been laid for an ultimate world government which will be more than merely an association of nations.

Justice Jackson, whose opening statement to the tribunal influenced the pattern of the trials, reported after the verdict had been rendered, "In the present depressing world outlook it is possible that the Nuremberg trial may constitute the most important moral advance to grow out of this war."<sup>10</sup> He fur-

ther claimed that the verdicts "do more than anything in our time to give to international law what Woodrow Wilson described as 'the kind of vitality it can only have if it is a real expression of our moral judgment'."

On the other hand, the legal basis and conduct of the trials have been widely criticized. These criticisms have not been directed against the end result of the trials—the punishment of the defendants. Nor have most of them centered on any charge that the procedure of trials was unfair, although the defense attorneys were not allowed to raise the *ex post facto* issue. The bulk of the criticism has centered upon the charge that activities included under Count 2, concerning crimes against the peace, were not generally considered to be crimes under international law at the time that they were committed.<sup>11</sup> Hence, the trials were really, it is claimed, *ex post facto* proceedings. This character, it is further asserted, renders the whole procedure vulnerable to cynical dismissal as being simply an elaborate ritual whereby the victors exacted revenge upon the vanquished. It is further argued that the *ex post facto* nature of the trials has undermined any prestige thus far acquired by international law. Rather than acting as a deterrent to further war, the knowledge that death awaits the vanquished will merely cause a nation on the brink of defeat to throw away all established rules and laws of war.

Each of these criticisms has been discussed and analyzed pro and con, and the dispute will doubtless continue to rage for a considerable period. It is significant, however, that apparently the trials now constitute a precedent in themselves. An international tribunal, although itself of an unprecedented character, has held that to prepare or incite a war of aggression, to conspire with others to do so, to persecute or oppress individuals or minorities in connection with such a war, or to enslave or mistreat civilian populations, constitutes international crime for the commission of which individuals can be held responsible.

### THE CONTROL OF ATOMIC ENERGY

The desperate attempt of the nations of the world to prevent further use of the atomic bomb, presumably in World War III, reflects widespread dread of thorough use of absolute weapons. As Bernard Baruch, United States representative in the United Nations Atomic Energy Commission, phrased this feeling: "We are here to make a choice between the quick and the dead. If we fail, then we have damned every man to be the slave of fear."

While further use of the atomic bomb is regarded with dread, most nations are also interested in the peacetime uses of atomic energy. It has already been used in medicine; it is about to be harnessed in a full-scale power plant; and many scientists believe that its peacetime uses might, in a civilization still intact, dwarf even its wartime potency. The nations of the world apparently have a threefold choice. Atomic energy, and the atomic bomb, can remain the exclusive domain and concern of the several nations, and a vast and costly atomic armament race, perhaps already launched, can flourish. Atomic bombs, and presumably also the study of atomic energy, can be outlawed and peaceful uses of atomic energy abandoned. This choice would be equivalent, in a sense, to outlawing fire because it can burn and destroy as well as heat and cook. Atomic energy, and atomic bombs, could also be placed under strict international control. It is this latter course which the representatives of the Atomic Energy Commission have been exploring.

The initial United States proposals, presented by Bernard Baruch in the summer of 1946, stated that the United States would, upon the fulfillment of certain conditions, cease the manufacture of atomic bombs.<sup>12</sup> This nation would also dispose of existing bombs pursuant to the terms of a treaty to be negotiated; make full technological knowledge available to an International Development Authority; gradually yield

national control of atomic-energy production to the Authority; and support the strategic distribution of "intrinsically dangerous" activities and stockpiles in all parts of the world. These concessions by the United States would be conditioned upon fulfillment of certain conditions by all other nations and the effective operation of the Authority.

Specifically, the United States concessions would go into effect when three pivotal developments had taken place: (1) All uranium and thorium deposits, mining and processing plants, and major research laboratories, now owned and operated on a national scale, would be taken out of national hands. (2) These resources and facilities would be turned over to the International Atomic Development Authority, which would have "managerial control of ownership of all atomic-energy activities potentially dangerous to world security," as well as the "power to control, inspect, and license all other atomic activities." (3) The veto power, as provided in the United Nations charter, would be abolished "so far as it related to . . . atomic energy."

The Russian reply, also delivered in mid-1946, differed from the United States proposal on many important counts. The Soviet proposal included these suggestions: (1) The nations should make an agreement to outlaw production and possession of atomic weapons, each nation to do its own enforcing. (2) All stocks of such finished or semifinished weapons should be destroyed within three months after the effective date of such an agreement. (3) Scientific information should be exchanged between the several nations, and joint scientific efforts should be made to encourage peaceful uses of atomic energy.

It is evident that these two proposals, while they may contain some common elements, also differ in important respects. International control of atomic energy, a cardinal principle of the United States proposal, would be replaced under the Soviet counterproposal by continued national op-

eration of atomic industries. The abolition of the veto power in this realm, as insisted upon by the United States representative, was strenuously opposed in the Soviet plan. In the resultant impasse, the United States representatives insisted that anything short of full international control was worse than nothing, since it deluded the peoples of the earth into a false sense of security. Contrariwise, the Russian delegates insisted that such control would constitute a drastic infringement of national sovereignty.

An important common denominator in the two plans, however, was the implicit assumption that national armies, navies, and air forces would be otherwise uncontrolled, only atomic bombs being outlawed. A number of scientists quickly pointed out that the atomic bomb is not necessarily the only absolute weapon that can be developed, an absolute weapon being defined as any weapon destroying human life or facilities at a rate clearly beyond any possible replacement within a generation. If national antagonisms and conflicts of interests are allowed to flare into further wars, which would press science and technology into frenzied service, such other absolute weapons as radioactive poisons and bacteriological and virus warfare might be used. Since these are not bound to scarce raw materials, their control might be far more difficult than the control of atomic energy.

Later in 1946, this defect became widely recognized, and Soviet proposals were advanced which seemed to suggest general disarmament. A cautious reply by the United States concurred in this objective, provided the disarmament be truly general. Thus the control of atomic energy gradually became related to the broader question of control of weapons generally. Yet even this broader question was still in a sense superficial, since arms are harmless enough if nations do not want to use them. It is true, of course, that the prospect of delivering a sudden knockout blow by secretly developed absolute weapons might encourage aggression. In a certain

sense, restricting or controlling weapons—even atomic bombs—without simultaneously launching a frontal attack against the causes of war seems comparable to trying to cure the symptoms of a disease rather than the disease itself. This analogy is not meant to minimize the paramount importance of preventing the future use of atomic bombs, especially if that objective can be coupled with the continued development of peacetime uses for atomic energy. If international cooperation breaks down, however, and wars are allowed to get under way, modern science and technology can soon devise new weapons or improve old ones.

The Scientific and Technical Committee of the United Nations Atomic Energy Commission, basing its conclusions upon previously published material, presented a report in late 1946 which asserted that international control of atomic energy is technically feasible. The production of atomic energy was traced all the way from the mine and mill to the end product, and the twelve eminent physicists preparing the report admitted that at most stages in production it would not be difficult for aggressors to divert secretly the materials requisite to bomb manufacture. Hence safeguards would be necessary at every stage from mine to factory, but especially in the latter stages. The Scientific and Technical Committee stated that: "We do not find any basis in the available scientific facts for supposing that effective control is not technologically feasible." The political feasibility or wisdom of these safeguards was deliberately ignored, since this question was to be explored by the Political Committee of the Commission.

Thus the question was returned to where it must ultimately be settled—to the realm of human institutions. Once again, and this time with almost unbearable clarity, the world faces the task of adapting its obsolete political, economic, and social institutions to a spectacular spurt of science and technology. This time, the stakes include not merely world econ-

omy vs. autarchy and peace vs. war, but even the survival of urban-industrial civilization.

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## CHAPTER 13

# CONTEMPORARY WORLD ORGANIZATION—ECONOMIC AND SOCIAL

**D**URING World War II, unprecedented pooling of manpower, materials, and funds took place as a coalition mustered world-wide resources to defeat the Axis. In the process of wartime economic cooperation, at least two significant if temporary instrumentalities were created—Lend-Lease and U.N.R.R.A. As an aftermath of the war, which had in turn followed a savage world-wide depression that had demonstrated economic interdependence, new permanent economic and social institutions have also been established. While the I.L.O. and certain minor functional organizations operated on an international scale in the interwar period, the current emphasis upon economic and social cooperation is unprecedented and revealing. There is now a keener realization of the interrelationship of political, economic, and social forces than ever before; but it is also probable that such economic and cultural problems as unemployment, trade breakdown, and national antagonisms have never been more threatening.

In this chapter, attention will be focused upon a few of these new instrumentalities and the setting in which they will function.

### *LEND-LEASE*

Much of the planning of permanent postwar economic and social organizations has been conditioned by experience with wartime cooperation. Hence, although most Lend-Lease accounts are now settled and the U.N.R.R.A. has been termi-



nated, these two agencies remain of more than passing importance.

Lend-Lease was not, of course, actually an agency or formal organization. It consisted of a pattern of agreements whereby nations agreed to lend-lease food, raw materials, and actual weapons of war to other nations fighting the common enemy.<sup>1</sup> The United States was the primary nation extending such aid, largely because of its prodigious productive capacity. This country also received very substantial "reverse Lend-Lease" from many nations, and in the cases of Australia and New Zealand the United States contributions were virtually or completely matched. The British dominions also maintained a sort of Lend-Lease system with the United Kingdom and with each other. This vast system of mutual aid was not only a significant mirror of the total and universal scope of modern war but also an important pattern for the postwar era. The "master" Lend-Lease agreement, which was adapted in each specific agreement entered into by the United States, emphasized that the accounts were ultimately to be settled in such a way as to liberalize and expand international trade and economic relations.

#### *U.N.R.R.A.*

The United Nations Relief and Rehabilitation Administration, also a wartime development, was actually a formal organization. Formed at a meeting of the representatives of 44 United Nations held in December, 1943, it was to direct relief and rehabilitation in the war-devastated areas. It was not to be a permanent agency, but rather the means by which food, clothing, and medicines would be sent to ravaged areas, and through which such areas might be started on the road back to reconstruction and self-support. It was arranged that the initial contribution of each nation which had not been occupied by the enemy should equal one per cent of its income

for the year ending June 30, 1943. Because of this criterion, the United States provided \$1,356,000,000 and the British Commonwealth of Nations about \$500,000,000. By the time of the agency's termination, the United States was reputed to have provided about \$2,700,000,000, or a little over seven-tenths of the organization's total resources. As U.N.R.R.A. neared its expiration date, no other international agency had been established to perform its function, and the United States was preparing to make outright grants to stricken areas.

This organization was caught in the vortex of the confusion, conflict of interest, and resurgent nationalism that followed World War II. It was also somewhat dwarfed by the immensity of the problem, which was perhaps accentuated by the paralysis resulting from the lack of a peace settlement. Perhaps the most damaging blow to the waning prestige of U.N.R.R.A. was the crisis between the United States and Yugoslavia, which had received extensive aid. Faced by enormous problems and caught between maneuvering powers, U.N.R.R.A. became as controversial an agency as the war produced. Nevertheless, it too provided a pattern,<sup>2</sup> if not one that is universally accepted, and a vast amount of operating experience.

### *THE ECONOMIC AND SOCIAL COUNCIL OF THE UNITED NATIONS*

When the United Nations Charter was drafted and later ratified, it contained provision for an Economic and Social Council. This council, an important integral part of the United Nations structure, merits careful scrutiny.<sup>3</sup>

In contrast to the extensive powers and functions of the Economic and Social Council, little emphasis had been placed upon economic and social problems in the Covenant of the League of Nations. In the Covenant, only a passing reference in Article 23 dealt with these problems, which were to

assume such paramount importance during the interwar period. The Economic and Social Council of the United Nations, however, was specifically directed to work toward and implement:

- a. higher standards of living, full employment, and conditions of economic progress and development.
- b. solutions of international economic, social, health, and related problems; and international cultural and educational cooperation; and
- c. universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.

The Economic and Social Council consists of the representatives of 18 nations elected by the General Assembly, with no permanent members, members changing from year to year, and with majority voting. It has many duties, including extensive research in social and economic realms, making pertinent recommendations to the Assembly, and calling or sponsoring international conferences to discuss economic or social questions.

The principal function of the Council, however, is to act as coordinator of the various "specialized agencies" either functioning or projected. It is to act as a link between these organizations and the Assembly, and it is to insure consistent and harmonious policies as among the various occasionally overlapping agencies. A number of these institutions are already in operation, and others continue to appear. The Council also gropes with the problem of adapting organizations that antedate World War II, such as the I.L.O., to the United Nations structure.

In its first year of operation, the Council not only acted as "holding company" for the new functional organizations but grappled with the problems of refugees, relief, and European reconstruction, and with the Danube impasse. The Council was a going concern from the start, but it was neces-

sarily geared to, and disturbed by, the stresses and strains appearing in the Security Council and the Assembly. The Economic and Social Council, on the one hand, and the Security Council and Assembly, on the other, must necessarily remain interdependent. The political organs can provide a favorable or impossible climate for economic and cultural cooperation, while the economic and social agencies can contribute to either the success or failure of the political superstructure.

*UNITED NATIONS EDUCATIONAL, SCIENTIFIC  
AND CULTURAL ORGANIZATION*

Of the many specialized agencies formed to function in conjunction with the United Nations, one of the more interesting and significant is the United Nations Educational, Scientific and Cultural Organization, commonly called U.N.E.S.C.O. In a world of divergent and often conflicting languages, mores, attitudes, and cultural patterns, it is the ultimate objective of this agency to lower some of these barriers to understanding and cooperation. The title of the organization, which includes education, science, and culture, is indicative of its scope, as well as a tacit recognition of the necessity of bringing science and human institutions into harmony. The preamble of U.N.E.S.C.O. states: <sup>4</sup>

... that since wars begin in the minds of men, it is in the minds of men that the defenses of peace must be constructed; that ignorance of each other's ways and lives has been a common cause, throughout the history of mankind, of that suspicion and mistrust between the peoples of the world through which their differences have all too often broken into war... that a peace based exclusively upon the political and economic arrangements of governments would not be a peace....

An organization of this type, formed to promote common understanding, cultural exchange, and intellectual coopera-

tion, is faced with tasks of enormous difficulty. Many of the barriers to understanding which it seeks to lower are founded on long-standing ethnic, economic, and cultural contrasts and conflicts. Such an organization cannot eliminate these contrasts and differences, for even within a single political power, such as the United States or the Soviet Union, sharp divergencies persist. It can, however, seek to keep these contrasts and resultant misunderstandings from developing into the grist for war.

Even in this task, the problems are many. An agency which seeks to promote international intellectual cooperation, while vast areas of research are still under security blackout or control, is handicapped from the outset. In a world with contrasting and sometimes closed economic systems and sharp political differences, the activities of such an agency are also apt to be regarded as merely propaganda for one nation or bloc against other nations or blocs.

When Congress approved entry of the United States into U.N.E.S.C.O., it also authorized the functioning of a special group of experts to advise the government as to desirable courses of action. The special group, called the National Commission on Educational, Scientific and Cultural Cooperation, included some ninety American scholars, educators, and intellectual leaders. In a four-day meeting in 1946, prior to the first General Conference in Paris, the National Commission made some very specific proposals, including (1) an international conference, to be called in 1947, to establish standards for revising school textbooks to rid them of prejudices and misunderstandings; (2) widespread utilization by U.N.E.S.C.O. of the press, radio, and motion pictures to promote world-wide understanding; (3) the establishment by the United Nations of a world-wide radio network, to bring educational and cultural programs to all countries; (4) the continual effort by U.N.E.S.C.O. to work toward the removal of barriers to the free flow of information; (5) the

creation of a world-wide lending library for nations whose libraries were ruined by war or who had inadequate facilities.

Such a program has been termed grandiose—certainly it would involve a host of practical problems. For example, attempts within even a single school system or nation to purge or edit school textbooks invariably create intense controversy and difference of opinions even among scholars and educators. It would also constitute a threat to national sovereignty in that many of these programs might penetrate to those masses of men upon whose unswerving and often blind support aggressively minded nations have long depended. Paradoxically, it will be difficult to open cultural channels between peoples while ethnocentrism, feudalism, and extreme nationalism dominate; yet such cultural interplay might play an important role in undermining these very forms of cultural lag. The American proposals for U.N.E.S.C.O., and perhaps U.N.E.S.C.O. itself, may be thwarted by the lingering strength of cultural and national antagonisms. Yet such proposals, from a nation long considered to be a bulwark of isolation and economic nationalism, offer striking testimony as to the distance already traveled along a very long and tortuous road.

### *UNITED NATIONS FOOD AND AGRICULTURAL ORGANIZATION*

To most of the world's peoples, food is the most important of all commodities. During the periods of postwar reconstruction, the need for food is especially acute. In vast areas of the earth's surface, hunger and famine are common, in peace or war, in one decade and century or another. Paradoxically, while vast numbers of people have always found difficulty in getting enough food, overproduction, surpluses, and glut have plagued the economies of many great agricultural producers. Argentina, Canada, the United States, and other erstwhile

exporters have found it difficult to dispose of crops, while hundreds of millions of people in Europe, China, India, and elsewhere have existed on the poverty line. With the low scales of living and purchasing power prevailing in these potential importing areas, and with the breakdown and distortion of world trade, neither consumer nor exporter could be satisfied.

In an attempt to approach this baffling but fundamental problem, the United Nations Food and Agricultural Organization has been established. Director General Sir John Boyd Orr stated the function of the agency as the assurance "that the people of the world will never again suffer from famine." While the new agency is intended to encourage food production in the reconstruction area, it is in no sense the immediate successor to U.N.R.R.A. It is designed to be a permanent agency, functioning in periods of world-wide distress and underproduction but also during eras of huge agricultural surpluses that cannot be sold to those who need them. At the 1946 meeting at Copenhagen, after organizational details had been largely arranged, primary consideration was given to the establishment of a World Food Board and an international food reserve and price-stabilization program.

The proposed functioning of such a board and program highlights the complexity of the whole problem. The basic problem is much the same as that faced in the United States during the interwar period, except that it is complicated by the incredibly low purchasing power of vast segments of the potential market. The Food Board would attempt to develop machinery and techniques which would stabilize prices for food and farm products at a level that would yield a fair return to producers yet be low enough to encourage consumption throughout the world. Price stabilization would be coupled with the establishment of food reserves adequate for

any emergency, which would be intended to eliminate alternate glut and famine in world food supplies. The terms are a bit different from those involved in meeting the domestic problem, since "buffer stocks" replace the "ever-normal granary" and "commodity agreements" replace "acreage and production quotas." The scope of the problem is also greater and the variables more numerous, but the difference is one of degree rather than kind.

The difficulties that would confront such a program are legion, although the dual objectives of avoiding hunger and famine and stabilizing food-producing economies are cornerstones of any postwar international policy. Some of the problems involved are tied in with the fact that if postwar trade is segmented—generally restricted, distorted, and channeled by bilateralism, autarchy, and extreme nationalism—no agency dealing with a segment of such trade can survive. In any move toward self-sufficiency, especially as a prelude to war, purely nationalistic considerations in regard to food become paramount. Once again it must be noted that any of these political, social, or economic institutions can function only in conjunction with others and on the basis of a genuine desire to cooperate.

On a technical level, there are also important problems. In the United States, when prices covering costs of agricultural production could not be paid by important numbers of consumers, subsidy and relief schemes were underwritten by the federal government. In the world economy, the peoples of China and India can pay far less than can most Americans even during depression. If Argentine or Canadian food is to reach the Orient, the problem might well arise as to who will provide the requisite subsidy or bonus. A long-range alternative, of course, would be to assist such potential importers in developmental and industrial programs, which might raise purchasing power and even provide exports which could be



used in payment. Agricultural output in such areas might also be increased by introducing new scientific techniques of production and perhaps some machinery. These solutions, however, are more pertinent to 1960 or 1975 than to the immediate postwar period, and an organization such as the U.N.F.A.O. must survive in the interim.

The "buffer stock" concept has wide support, since it has ample historical precedent in many nations and some experience with the plan has also been accumulated on the international level. In the United States, however, price supports and production have been linked with the "ever-normal granary." A fixed world price, of course, would also involve production controls and the difficult process of adjusting to cost differentials in various producing areas.

Yet the hope of at least partially solving two baffling problems by one program is a powerful impetus to continued study, planning, and attempts to establish effective controls. At the Copenhagen Conference thirty-three nations, including the United States, accepted in principle the tentative plan for a World Food Board. A preparatory commission was named to draw up detailed recommendations. When this group met in Washington, later in 1946, the United States representative repudiated the so-called Orr plan, which contained the proposals discussed in preceding paragraphs. He charged that the Orr plan was too complicated and costly and might interfere with the normal workings of supply and demand. He also ventured the suggestion that control of food, as well as other commodities, should be vested in the projected International Trade Organization. In answer to this general position, many have pointed out that a very real difference exists between restrictive nationalistic controls and international controls aimed at greater consumption and economic stability. It has also been noted that monetary control, as exerted through the World Bank and International Mone-

tary Fund, also influences supply and demand but is nevertheless believed to be essential.

Again a paradox is noted—the twofold criticism of contemporary world organization. To many individuals, groups, and nations, an agency such as the United Nations Food and Agricultural Organization involves too much tinkering with national sovereignty. To many others, such an agency is not broad or free enough, and hence is suspect. Nevertheless, in lieu of ultimate effective functioning of more comprehensive international institutions, such organizations as the U.N.F.A.O. represent one of the most ambitious programs yet devised to obtain concerted action on an age-old human problem and scourge. The first acid test, of course, involves persuading the nations of the world, still wary and zealous in maintaining their sovereignty, to allow even a modest plan to function.

### *INTERNATIONAL COMMODITY AGREEMENTS*

Since most of the international experience thus far gained in governmentally controlling international production, marketing, and prices of raw materials has been accumulated through international commodity agreements, these require brief analysis. Furthermore, such individual agreements, concerning particular raw materials or foodstuffs, have been suggested as an alternative to the more comprehensive World Food Board mentioned in the preceding pages. Such individual agreements do not, of course, constitute a frontal attack upon the whole problem of agricultural surpluses and shortages, but rather deal only with individual industries. As such, they may not always be coordinated with controls upon other raw materials, or even with general international objectives of freer and less discriminatory trade. These agreements are not, however, merely private cartels but are either government sponsored or government operated.<sup>8</sup>

Such agreements now exist relative to wheat, tea, coffee, petroleum, and several other foodstuffs and raw materials. The Inter-American Coffee Agreement, signed in 1940, is a more or less typical example of an arrangement, at the inter-governmental level, designed to restore some stability to an erratic and chronically overproducing industry. This agreement sets up a quota system, which is simplified by the twin facts that the United States is the world's dominant consumer, taking about half of the world's exports, while Brazil has occupied a comparable place among exporters, providing about half of the shipments. Under the quota system, the United States is assigned an import quota, which is divided among Latin American producers and allocates some exports to other countries. Among exporters, Brazil received the largest quota under the original and all subsequent quota systems. These quotas were changed from time to time during the war, as conditions changed relative to production, shipping, and markets. No price provisions were included in the arrangement, although the United States had a fixed price under its Office of Price Administration.

This system was somewhat unique in that it gave some voice to at least the dominant importer, whereas most commodity agreements tend to fix prices and quotas under the influence of producing groups. In addition to the excessively high or rigid prices which sometimes result from this fact, other difficulties are often experienced with such arrangements. They sometimes tend to be a bit rigid and inflexible; they are often not well-implemented by domestic controls; and they may be nullified by generally restrictionist trade policies among the nations. In any event, such commodity agreements cannot solve basic dislocations in the world economy. Maintained with an eye to the consumer as well as the producer, and coordinated with liberal trade policies, they may nevertheless serve a useful function.

*INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT*

Recalling the monetary and financial breakdown of the interwar period, the nations of the world determined to establish some postwar agencies designed to encourage the flow of capital and to stabilize exchanges. Thus at Bretton Woods, New Hampshire, in mid-1944, two very large and highly significant organizations were created. These agencies, popularly called the World Bank and the World Fund, are more accurately the International Bank for Reconstruction and Development and the International Monetary Fund.<sup>6</sup> Designed to bulwark and complement each other as well as to fit within a common framework of international economic cooperation, they were and are separate and distinct instruments.

The World Bank was established to aid in the reconstruction of nations ravaged or disturbed by war, but its primary long-term objective is to aid in the development of nations possessing resources and an industrial, agricultural, or commercial potential, but little capital. Thus the bank constituted a recognition of the rapid spread of industrial technology and aspirations throughout the world. It was also established on the premise that, with the weakening of the colonial system and the upsurge of nationalism in the embryonic industrial nations, capital flow should be sponsored and guided by an international agency not tied to any single power or group of powers. While the major nations were to contribute the bulk of the initial capital of a little over nine billion dollars, the World Bank was nevertheless to function as an international agency. The United States, for example, was assigned a quota of about one-third of the capital of the bank, but it was not to be in any sense a United States organization. Of the capital of the bank, only 10 per cent was to be paid in initially, the remainder being on call, with the amount that could be called for direct loans being limited.

The World Bank was and is fundamentally an underwriting organization, underwriting issues placed by signatories in the private capital markets. It can also make direct loans from its own capital, or make direct loans from funds raised by floating its own issues in the private capital market. Such World Bank securities would be gilt-edged, since the bank is never allowed to extend credit beyond the total subscribed capital and accumulated reserves and surplus. If the signatory can borrow at reasonable rates in the private money market, it cannot appeal to the bank. Thus, while the World Bank's policies will apparently be relatively cautious and conservative, it is nevertheless designed to facilitate a type of long-term development that might not be a feasible risk for private capital.

Because of the developmental character of the World Bank's activities, loans are expected to be on a long-term basis. The bank is also to encourage increased governmental responsibility on the part of the borrowing nation, and to that end is to make sure that rates are reasonable and that adequate provisions for amortization have been included. The schedule of repayment is to be geared to the project upon which the loan is extended, the bank levying a commission charge to be used to build up an insurance fund to protect the outlays of the signatory nations.

While the World Bank has not been as widely criticized as the World Fund, it has been the object of a number of pointed questions. Some have suggested that since the United States provides much of the capital, the bank should be openly and overtly an American project. This proposal is countered by the twofold retort that United States self-interest dictates sharing the risk, and that an American bank operating in undeveloped areas would be widely regarded as a tool of "dollar imperialism" or as a mere device to subsidize American exports. Another suggestion is that the same functions could be performed by private banking institutions. On historical

evidence, however, it is widely questioned whether long-term, low-interest, somewhat risky developmental loans, without underwriting, would be sufficiently appealing. The World Bank, as now established, will really act as a "back-stop" for such private banking institutions, who will do most of the actual lending.

### *THE INTERNATIONAL MONETARY FUND*

The International Monetary Fund, also projected at Bretton Woods, is designed to facilitate international monetary cooperation and to bring some measure of stability to exchange rates. During the 1920's exchange rates became a serious impediment to world trade and investment, and in the following decade they were an actual instrument of discrimination and economic warfare. Specifically, the World Fund is to promote exchange stability to avoid competitive exchange depreciation; to provide machinery for adjustment of exchange rates when needed to correct basic dislocations; to facilitate balanced trade rather than nationalistic resort to deflationary or inflationary policies; and to fix some over-all pattern of international exchange rates within which stability can be achieved, without establishing a rigid and inflexible system.

Such objectives are to be achieved by short-term borrowing from the World Fund, the World Bank supplying or underwriting long-term credit. This short-term borrowing is to be arranged, it is hoped, without running the risks of inflation or deflation involved in a rigid rate structure attached to the gold standard. Yet gold continues to play a role, since each currency is to be expressed in terms of gold. The parity, however, may be adjusted through cooperative action if any of the signatories are the victims of price distortions. Each signatory must subscribe 25 per cent of its quota in gold, or 10 per cent of its gold holdings, whichever is the smaller

figure, and the remainder in its own currency. Of the total subscription, to be just under the \$9 billion level, it has been estimated that about \$1 $\frac{2}{3}$  billion would be in gold. The World Fund may make an agreed uniform change in the par value of all signatory nations, provided every member having 10 per cent or more of aggregate quotas (United States, United Kingdom, and U.S.S.R.) approves.

Specifically, the World Fund is to utilize this mechanism to perform three basic functions.

(1) It offers short-term credit to signatories to help them past temporary emergencies and dislocations, being merely a line of credit upon which a paid-up signatory can draw, to the extent of not more than 25 per cent of its quota in any calendar year. When a loan is made, the borrowing nation adds to its deposit in the fund a deposit of its own currency equal to the sum borrowed. Thus, when a nation has exhausted its line of credit, collateral is equal to almost twice the line of credit, the security ratio being almost two to one. If a national currency is depreciated, the amount of such a nation's currency held by the World Fund must be increased. Elaborate precautions are also taken, through the interest rates, to compel the use of this credit for short-term purposes.

(2) The World Fund is also to serve as a mechanism of adjustment to improve the long-term balance of payments for signatories. The line of credit provides security which may make unnecessary restrictive action, provides a channel for consultation on exchange rates, provides an alternative to the old technique of inflation and deflation, and attempts to minimize exchange speculation.

(3) The third function of the World Fund is to provide a continuing clearing house and sponsor for international economic consultation, research, and reports.

The International Monetary Fund has been subject to considerable criticism, over and beyond its obvious dependence upon more fundamental economic cooperation and a

reasonably stable international economic environment. The fund is claimed to be too large and too small, to promise too much or too little, and to have quotas which are arbitrary. It is also said to allow members to postpone necessary fundamental adjustments, by virtue of first exhausting the line of credit. There may be some point to this suggestion, although the World Fund is set up to discourage this practice by higher rates, penalty rates, and other techniques. The World Fund is intended by its founders and according to its charter to be a medium for strictly short-term credit, although such extension may have long-range repercussions. Abuse is possible, of course, although elaborate devices have been provided for in the mechanics of the fund operation. The most frequent criticism of the World Fund, once again, is that it cannot by itself do the job of maintaining international economic stability. This criticism is undoubtedly true, and severe and prolonged pressure on exchange rates, resulting from chronic depression and unemployment or a resurgence of trade restrictions and discrimination, would indeed render the World Fund futile. Yet trade cannot move freely and nationalistic policies be held in abeyance unless some assurance of monetary stability is also available. Apparently efforts must be made along all related lines concurrently, although this procedure is admittedly difficult.

### *EARLY OPERATION OF THE WORLD BANK AND WORLD FUND*

Although the World Bank and World Fund emerged from Bretton Woods in 1944, they could not begin to function immediately. Not merely did approval by the signatory nations have to be obtained; such institutions could scarcely function either during the war or in the chaotic period immediately following its close. Although such agencies were designed to facilitate reconversion and reconstruction, they have



never been envisioned as primarily interim organizations. Hence, the World Bank and World Fund did not announce their "opening for business" until the fall of 1946, and even then the opening was largely formal, since full-scale activities were to be delayed until 1947.

The World Bank started its activities with membership somewhat curtailed from 1944 expectations. It claimed in 1946 a membership of 42 nations and a capital of \$7,979,000,000, as contrasted with the \$9,100,000,000 stipulated in 1944. Seven of the nations participating at Bretton Woods had not joined the World Bank, this group including the U.S.S.R., Australia, and New Zealand, as well as Venezuela, Colombia, Liberia, and Haiti. On the other hand, such new members as Italy, Turkey, Syria, and Lebanon had provided an increment of strength, and France's quota had been raised. The World Fund, which had been set up on an \$8,800,000,000 basis, claimed 43 members and total resources of \$7,708,000,000 late in 1946. The same nations that failed to join the World Bank also failed to join the World Fund, with the exception of Colombia, which has joined the latter.

Both institutions started formal functioning in a disturbed and still-ravaged world, but with obvious and necessary functions to perform. The World Fund, confronted by uneasy currencies and dislocated balances of payments, was prepared to initially set or ratify exchange rates. While it was unlikely that these first rates could be permanent, such initial rates were regarded as a necessary first step in seeking stability. Factors which were expected to disturb any early set of rates that could be established included spiraling prices in many nations, depressed currency values, and widespread black-market dealings. As a foundation for its first pattern, however, the World Fund could rely on the pegging at current rates by three principal trading nations of the par value of their currencies. The United States dollar, the British pound, and the Canadian dollar remained at parity. These

decisions were in response to the call by the World Fund for statements of initial par values of the currencies of signatory countries. These three rates were to be used as the foundation on which the rest of the world's currency structure could be built. Initial rates were established at the end of 1946, with only the rates for unstable currencies still to be determined. Since operations could begin after par values had been established for currencies of countries with World Fund quotas of \$5,720,000,000, and since the United States, British, and Canadian quotas alone aggregate \$4,350,000,000, it was expected that early 1947 would bring the World Fund into action. The United States loan to Great Britain and the resultant relaxation of sterling controls were regarded as somewhat helpful to the World Fund.

The World Bank also anticipated 1947 operation, although it was expected to maintain a rather cautious policy even in that year. Formal and informal applications received in 1946 totalled \$2,900,000,000, but the applications pertained to 1947. Applications were said to be pending from Poland, France, the Netherlands, Czechoslovakia, Iran, Denmark, and Chile, this list indicating rather clearly the dual objectives of the World Bank. Prospects for stepping up loans also appeared to be bulwarked by the possibility of selling World Bank bonds in a broader market than had been envisioned. In some states, mutual savings banks, trust funds, commercial banks, and others could invest, although the insurance outlet was restricted by state laws. Although the World Bank could make initial loans from the portion of its capital already paid in, prospects of an ultimate market for World Bank securities would probably render its directors less concerned about depleting such subscribed resources.

These agencies constitute a recognition of the interdependence of economic and political relations, as well as an attempt to replace colonial-style investment and wildly fluc-

tuating exchange rates with development of world resources and stable monetary relationships. Again, the World Bank and the World Fund are confronted by the same circular problem that faces the United Nations. They can operate successfully only if not stymied by tariffs, by exchange controls, by quotas, by devaluation of currencies as a weapon, by nationalistic employment and security programs, and far from incidentally, by uncontrolled domestic inflations throughout the world. If the nations of the world decide that other goals are more attractive than peace, or if they decide to revert again to isolation, balance of power, and spheres of influence to maintain peace, a bank with tremendous resources and/or a fund with untold billions would not be enough. Yet, without such economic institutions, the alternatives to such nationalistic devices are few. With a source of loanable funds which transcends national (and potentially imperialistic) levels, and some bulwark to exchange rates, some easing of the pressures leading to violent economic nationalism is now possible.

### *THE INTERNATIONAL TRADE ORGANIZATION*

Framers of the Bretton Woods proposals knew full well that monetary cooperation was interdependent with trade cooperation. In a similar way, stabilization of foodstuff and raw-material trade cannot take place within a general setting of economic nationalism. Hence, in February, 1946, the Economic and Social Council of the United Nations adopted a resolution calling for a conference of all member states to establish an International Trade Organization. A preparatory committee, consisting of the Big Five and fourteen other leading trade nations, was appointed to pave the way for such a conference. The meeting of this group, to take place in London, was repeatedly postponed but was finally held late in 1946. In order to convene the committee at all, the partic-

ipating members were assured that no commitments were expected and that the group would merely prepare a detailed agenda for a future conference.

The difficulties in even bringing the preparatory committee together graphically illustrate the tremendous obstacles confronted by the ultimate conference or the resultant International Trade Organization. Such an organization would be intended to promote freer world trade, and to discourage overt trade discrimination. Meanwhile, despite the establishment of such institutions as the World Bank and World Fund, many nations are already either reviving prewar bilateral or restrictive controls or forging new ones. Strong segments of industrial opinion in England, for instance, favor bilateralism as a necessary step in maintaining the British economy. Many of the embryonic industrial nations, or the formerly colonial areas newly achieving national status, have set up elaborate new controls. Meanwhile, the Soviet Union has negotiated bilateral trade agreements with Sweden, Romania, Bulgaria, Hungary, Czechoslovakia, and Poland. These are bilateral in both form and substance, concessions being restricted to the signatories, and they are implemented by quotas and exchange controls.

Not only are many nations loath to abandon controls, in an uncertain world in which international cooperation has not yet proved fully effective, but some added obstacles are found. Many nations, of course, view United States foreign economic policy, especially regarding tariffs and loans, as suspect. They point out that the Trade Agreements Program is superimposed on the 1930 Tariff Act, whose once-astronomic rates are still high. It is also noted that by using the "chief-supplier formula" or by making concessions so specific as to be incapable of generalization, even the reciprocal pacts could be perverted. Whether this fear is justified or not, and whether it is a real or merely an avowed fear, remain to be seen.

Nevertheless, the frequency with which it is expressed is a fact significant in itself.

A further difficulty arises because of the belief in some quarters that the American economy will continue to be subject to violent depressions and protracted unemployment, ultimately dragging down all nations tied to United States policy. Paradoxically, widespread hedging against such a contingency, perhaps in the form of continued trade restrictions, exchange control, and moves toward self-sufficiency, would do much to bring such collapse to pass.

Another difficulty, of course, arises from the existence in the world of various types of economic systems, ranging from free-enterprise to controlled socialist and communist systems. Some nations with controlled economies argue that they cannot practice free and uncontrolled world trade without jeopardizing their domestic economies and exposing themselves to world-wide dislocations.

In order to meet some of these technical objections, as well as perhaps to offer a token of good faith, a group of United States experts prepared a State Department draft of a "suggested Charter for an International Trade Organization."<sup>7</sup> The purpose of the organization is stated in comprehensive terms as: "In general, to promote national and international action for the expansion of the production, exchange, and consumption of goods, for the reduction of tariffs and other trade barriers, and for the elimination of discriminatory treatment in international commerce." Lest this be taken as a vision of economic utopia, the document goes into great detail as to policy concerning all imaginable trade practices. The chapter on general commercial policy deals with general most-favored-nation treatment; freedom of transit; antidumping and countervailing duties; tariff valuations; marks of origin; reduction of tariffs and elimination of quantitative restrictions; exchange controls; export subsidies, state trading;

and contractual relations with nonmembers. Other sections of the report deal with policing cartels, establishing consistent international commodity agreements, and similar matters.

In order to meet some of the objections mentioned in earlier paragraphs, no attempt is made to propose universal free trade. All nations, including the United States as well as the newer industrial countries, appear determined to retain some protection and control. Neither is any attempt made in this proposal to force nations to abandon irrevocably their recourse to quotas, subsidies, and exchange controls. The draft places heavy emphasis, however, on minimizing discrimination and encouraging reciprocal tariff reductions which would be ultimately extended to all nations offering most-favored-nation treatment.

In dealing with the difficult problem of state trading in a mixed world economy, it is evident that any attempt to prevent state trading would be futile. Yet, reckless or discriminatory use of state trading could undercut trading by private enterprise and virtually force retaliation. Hence, the suggested charter would treat the margins between buying and selling prices as subject to negotiations and would encourage state trading on cost considerations rather than along openly noneconomic lines.

Such proposals can mean little if the nations of the world are determined to restrict trade and to discriminate. Yet, in a world in which full employment is a general objective of most nations, and in which scales of living are incredibly low over vast areas, reversion to trade warfare seems a fateful step. Such a reversion would not only threaten a repetition of the world-wide depression of the 1930's, and perhaps accentuate the possibility of World War III, but would obviously emasculate such already functioning agencies as the World Bank. Ironically, the International Trade Organization, even as proposed in the State Department draft, would have very little control, at least in its early stages, over national trade policies.

### NATIONAL POLICIES AND WORLD ORGANIZATION

In analyzing the various political, economic, and social organizations now being established, frequent mention has been made of the relationship between national sovereignty and the success or failure of these institutions. It should be noted that extreme nationalism can abort some of these attempts in more than one fashion. Unwillingness to allow these new organizations to impinge upon national sovereignty is but one source of difficulty. Domestic policies that by intent or inadvertence prove mutually exclusive with international cooperation can also undermine effective functioning of world organization. Examples, historical or theoretical, are again legion. World monetary cooperation will be thwarted if nations resort extensively to competitive exchange depreciation in the interests of expanding exports. A world trade organization will be frustrated if nations continue recourse to extreme protective tariffs, bilateralism, and exchange controls. Perhaps most important, the development of an international economy as a possible bulwark of domestic employment may be precluded by autarchic and nationalistic full-employment policies.<sup>8</sup> In short, if world organizations are to function, nations must pursue consistent policies both as nations and as member states.

A review of these new world institutions reveals that many of them rest, perhaps unavoidably, on insecure foundations. This brief study has also indicated that many are still essentially paper organizations, and will remain so until certain basic conflicts of apparent national interest are at least partially resolved. Yet, the conclusion seems inescapable that the scope of these world organizations is greater, the support stronger, and the drive toward some workable if imperfect set of world institutions more urgent, than was the case at the close of World War I. As Chapter 14 will attempt to indicate,

the problems faced and the grip of cultural lag may also be greater. Yet, as Justice Holmes once pointed out, "The mode in which the inevitable comes to pass is through effort." This impasse is the same that the world has known for at least half a century, but this time the compulsion is greater, the stakes are higher, and the choice of arbiter lies between the assembly hall and the atomic bomb.

## WORKS CITED IN CHAPTER 13

1. The most complete description of Lend-Lease is found in Edward R. Stettinius, *Lend-Lease: Weapon for Victory*.
2. Regarding the significance of that pattern, note P. C. Jessup, "UNRRA, Sample of World Organization," *Foreign Affairs*, 22:362-373, April, 1944.
3. See Herman Finer, *The United Nations Economic and Social Council*.
4. Read C. Mildred Thompson, "The Educational, Scientific, and Cultural Organization of the United Nations, with Text of Constitution," *Foreign Policy Reports*, 21:310-316, February 15, 1946.
5. For extensive treatment see Edward S. Mason, *Controlling World Trade: Cartels and Commodity Agreements*.
6. Note the brief but lucid analysis of the World Bank and World Fund in Alvin H. Hansen, *America's Role in the World Economy*.
7. U. S. Department of State, Commercial Policy Series 93, (*Suggested Charter for an International Trade Organization of the United Nations Organization*).
8. Relative to national vs. international full-employment policies, see the League of Nations study, *Economic Stability in the Post-War World*.



## CHAPTER 14

### WHAT OF THE FUTURE?

**W**ORLD WAR II must itself be weighted heavily in assessing the postwar world. It was not merely a cosmic accident sandwiched in among periods of progress and peace. Neither was it solely the outgrowth of individual historic personalities (notably Hitler, Mussolini, and company) and their machinations. Rather it was another of the major social crises of man's history, brought about by the same basic factors that have caused the general friction and disorder of the Twentieth Century. Indeed, war is a symptom of general social disorganization, representing in part the same impasse between technology and cultural lag that brought about the virtual collapse of the emerging world economy during the interwar period.

#### *WORLD WAR II AND THE IMPASSE OF OUR AGE*

While this chapter will sketch the effect of social, economic, and political breakdown upon the outbreak of World War II, it is much more concerned with the impact of the recent war upon the postwar world society. Did World War II, with its forced reliance upon allies and concerted cooperative effort, reduce the grip of ethnocentrism and extreme nationalism? Did the war, with its virtual destruction of Germany and Japan as powerful states, accomplish the destruction of feudalism? Or did this vast conflict accentuate the prejudice and hatreds, as well as the fears, that bulwark and make possible such manifestations of cultural lag as ethnocentrism and inwardly oriented nationalism? Did the war mean the actual

destruction of feudalism, or merely the military and political defeat of nations that happened to be feudalistic? Is it possible that the war, with its uneven destruction of populations, accentuated population differentials? In short, this chapter is designed to provide at least some insight as to whether we are closer to a world economy, to a world society, and to peace than we were in 1939. Since that year, the atomic bomb and new forms of world organization have both materialized. Where are we now? And what of the future?

Major emphasis in this chapter will be placed upon a reappraisal, in the light of World War II as a past experience, of the causal factors in world economic breakdown, rather than upon the manifestations of such breakdown. Despite the host of new instrumentalities of world cooperation in the economic, political, and social realms, many of the distortions linger that appeared in exaggerated form during the 1930's. Trade barriers are still high around major industrial nations, and strong elements in some countries favor restoration of depression-born bilateral trading. Not only are trade controls of all types still enforced by most major powers, but many of the embryonic industrial nations have actually increased controls in order to maintain their wartime positions. Trade in strategic minerals and raw materials is still controlled and manipulated, as government purchasing and the continued operation of "synthetic" industries assume an important role. Though many of the prewar cartels have not reappeared and it is hoped by many that the new international economic organizations will perform any necessary functions once handled by cartels, yet some cartels are functioning, and important segments of industrial opinion in many countries, notably England, favor reestablishment of both cartels and bilateral trading. Unemployment, while not currently a major problem in most industrial nations, continues to constitute a major threat. Population pressure, in terms of unrest occa-

sioned when peoples cannot satisfy their keenly felt wants, has probably been accentuated by the devastation of war.

But to focus attention upon these problems, which are outgrowths of more fundamental distortions, would tell us little. These problems may be merely vestiges, soon to fade as world institutions function. Contrariwise, they may symptomize the continuing or even growing crisis brought about by the failure of human institutions to adapt to science and technology. Only an analysis of these underlying factors can aid in our appraisal.

### *ORIGINS OF THE RECENT WAR*

World War II was a violent and tragic manifestation of the fundamental social change now in process: transition from primitive, localized society to modern global civilization. It was a gigantic spasm resulting from the shift away from small, simple, isolated, self-sufficient, and culturally diverse communities to a larger world community or great society. The war and its role in the history of human society go far beyond the aims of an Austrian house painter and his military colossus. It is necessary to recognize that World War II was a part—an incident, if you please—in a far-reaching social revolution. This revolution has been powered primarily by the enormous development of industrial technology which has, within the memory of persons now alive, completely transformed the mode and tempo of human life. The new technology has increased the productivity of the world many times over; it has transformed the methods by which goods are produced; and it has changed the way in which people live, the food they eat, and the pleasures they enjoy. In the fields of communication and transportation it has knit the world together into a territory that is smaller, in terms of travel time than was a single state or country of a century ago. Such a development could not but lead to social and

economic repercussions in a world that had been organized to meet the needs of small, self-sufficient local areas.

Lagging institutions and modes of thought have thus frustrated and often perverted the very technology upon which the embryonic world society and global economy were to be based. Technology has served to bring people everywhere into closer contact with each other, and thus has contributed to a wider orientation of thought, attitudes, and sentimental attachments. Yet cultural lag, especially as represented in ethnocentrism and feudalism, has served to pervert technology into implementation for new and more destructive wars. Simultaneously, the growth of integral nationalism has also served to make impossible the utilization of technology to augment world production, increase scales of living, and furnish a basis for stable economic institutions. Meanwhile, a world convulsed by this impasse has been unable to make the adjustments necessitated by Twentieth Century population trends. Thus, technology has been harnessed, not to a stable world society, but to the needs of warring nations. Technology alone can scarcely guarantee or even promote stable relations on the earth. Because technology was not used to break down barriers between understanding, it was ultimately used to destroy cities and pillboxes. The same factors that produced trade breakdown, maldistribution of raw materials, cartels, unemployment, and population pressure provoked World War II.

As this war was producing social, economic, and political upheaval that may hasten world orientation and that has already provided an impetus to world organization on an unprecedented scale, it also strengthened the impediments to global organization. World War II did all too much to increase ethnocentrism, bulwark feudalism, intrench integral nationalism, and accelerate prewar population trends. It also necessitated tremendous postwar readjustments that have not

been and cannot be made successfully on the basis of intellectual, emotional, economic, or political localism.

### *WORLD WAR II AND ETHNOCENTRISM*

This war unquestionably strengthened ethnocentrism, at least in the short run. It is true that war forces men of one community or nation to meet men from another and to come in contact with divergent ideas, attitudes, prejudices, and mores. War also creates a technological upsurge, which, if harnessed democratically, might provide the impetus requisite to the destruction of feudalism. Yet, at least during a war and apparently after its close, ethnocentrism and feudalism are given new vigor.

When fighting a war, even in intimate association with great and necessary allies, each nation tends to magnify its own contribution. Faced by conflict with outside groups, each group seeks to find solidarity and unity within itself. Thus, each nation features and glorifies its own symbols, beliefs, and accomplishments in an effort to maintain its own identity. Thus, just as a "pig eater" may consider himself better than a "frog eater," one man from X can kill fifty men from Y, or at least so it is believed in X. To be sure, ethnocentrism of this variety may lead to such disastrous reverses as to force respect for the enemy. Nevertheless, this respect is likely to be on a grudging and restricted basis and is not conducive to any real understanding. Relations between allies may not be quite so conducive to continued ethnocentrism, but even there cooperation may be sporadic and not born to full understanding. There can be no question that World War II produced a group of millions of men who traveled over the face of the globe and who have come in contact with divergent cultures. Yet if a man from Iowa walks down the streets of an English village, making odious comparisons with Cedar Rapids, he may see but not understand. Likewise, if a Londoner uses his

beloved metropolis as his complete frame of reference everywhere he travels, he can remain provincial in outlook. Forced contact with men and institutions from other nations is conducive to fuller understanding only if the ethnocentrism produced by war itself is not too strong.

### *WORLD WAR II AND FEUDALISM*

The war did weaken some of the foundations of feudalism, and it did bring about the defeat of several avowedly feudalistic powers. Mechanization of modern war has made it necessary to recruit garage mechanics, farm hands, and white-collar workers as mass armies are formed. Likewise, modern armies are so vast as to necessitate recruitment of leadership from classes other than the feudal *élite*. In many nations, nevertheless, war has given the feudal group the continued allegiance of the masses. Diverted from their own plight by ethnocentric urgings and nationalistic fervor, masses of men have rallied behind feudal leadership. In both Germany and Japan, for example, a new *élite*, employing the time-sanctioned racial and nationalistic myths to recruit support, long maintained power. Indeed, although many of the high staff officers in both nations were recruited from the masses, these men were then merely recruited into the feudal *élite*. Thus the military castes of these countries found in war their claim for continued power. Just as the Junker class was rescued from near-oblivion by the Napoleonic invasion, feudal classes in many countries have actually gained strength. If the underlying ethnocentrism is not minimized, and if the masses of people are not allowed higher scales of living, even the defeat suffered at the end of World War II may simply mean a new feudal *élite* in these Axis countries. A failure to harness technology in a global society may also mean the resurgence of industrial feudalism in many of the victor countries.

## WORLD WAR II AND NATIONALISM

Although the war gave rise to a host of ambitious international organizations, it also produced an accentuation or rebirth of nationalism in many a country. Paradoxically, this development paralleled the widespread if belated and haphazard cooperation among allies made necessary by the global proportions of the conflict. It is natural that war, being organized conflict between nations, should result in inward orientation and increased national self-consciousness and patriotism. A people's whole set of national loyalties is focused not only toward the nation but toward all the values that continued national existence presumably mean. Especially in totalitarian war, when all the resources of a people are oriented toward national objectives, the individuals will inevitably become subordinated. This manifestation occurs with especial vigor in feudalistic nations, but it also occurs even in democratic countries where nationalism had not previously been all-consuming. Thus the flag, the national hymn, the national heroes, and national aspirations take on new meaning.

There is scarcely a nation, including those whose postwar existence and security are dependent upon international organization, that has not felt the impact of this nationalistic surge. It has been notable in China, where nominal national status was achieved momentarily and largely under the impetus of war. It has been felt in the United States and England, where national states have long since been achieved but where they must be protected and maintained. But most notable and spectacular, perhaps, has been its resurgence in the Soviet Union. Russia, which has trended steadily toward national self-consciousness since the mid-1920's, has accentuated that trend. In the Russia of World War II, "Mother Russia" became a powerful focus for the loyalty of the Soviet armies. Epaulets reappeared, and new awards were established: the orders of Kutuzoff and Suvoroff, famous Czarist

military figures. Other pre-Soviet heroes honored in Soviet motion pictures, dramas, and books are Alexander Nevski, Peter the Great, and even General Alexei Brusiloff, czarist military commander in World War I.

Significantly, the now-emerging postwar problems manifest the growing strength of nationalism in many quarters. One of the widely discussed current international economic problems is freedom of the air, as exemplified by disputes as to North Atlantic rates. This question, aired in both Congress and Parliament, is disturbing alike to those countries that have the planes but not the bases and the bases but not the planes. Simultaneously, the enormous expansion of United States merchant-marine tonnage and shipbuilding facilities has provoked a similar controversy in regard to ocean shipping. In the United States, Land, Vickery, and others have stated that the United States will probably dominate the sea lanes of the world during the postwar era. Prospects of American dominance, of course, cause considerable apprehension in countries which enjoyed prewar leadership. Thus, while shipping and shipbuilding facilities were pooled during the war, the patterns are now drawn for world-wide competition along nationalistic lines.

The strength of nationalism is best reflected in a number of other current disputes that beset a world wearily seeking a peace settlement. These include, of course, the partition or integration of Germany and the fate of Japan; the location of a dozen boundaries; the disposition of the Italian colonies and of a host of islands owned by or mandated to the Japanese; reparations; the status of Palestine, China, Iran, India, the Dutch East Indies, Greece, and a score of other areas. Each nation must decide as to the postwar disposition and possible protection of uneconomic but strategic domestic industries, many of which were created or enlarged during the war. Perhaps most significant of all is the fact that in the current speculation concerning postwar depression or boom much of



the emphasis is placed upon domestic policy, domestic controls, and domestic outlets for capital. Nowhere is the nationalistic bias more clearly reflected than in this apparent determination to solve a world-wide problem locally.

### *WORLD WAR II AND POPULATION TRENDS*

The war has also accentuated the prevailing population trends. As was sketched in Chapter 3, for the past half century the world has experienced a dwindling rate of population growth and marked differentials between the rates of growth in various nations. World War I, it may be remembered, resulted in a destructive phase during which the death rate mounted and the marriage and birth rates slumped still further. After that war, a restorative phase followed, in which death rates subsided and marriage and birth rates rose. Yet, because of a continuation of underlying trends and because of a disturbed age composition and distorted sex ratio, that restorative phase did not offset the earlier impact of the war.

There is every evidence that World War II followed a roughly similar pattern, although statistical evidence is still fragmentary. The war was severely destructive of human life, although the early stages of the European war did not inflict especially heavy casualties. Millions of men have died, with China, the Soviet Union, and Germany bearing the brunt of the casualties. Additional millions of men, women, and children have perished as a result of air raids, mass executions, pogroms, starvation, and disease. The early phase of rising birth rates passed in most nations. As tens of millions of men were mobilized for several years, millions of marriages were not contracted and millions of births were postponed by reason of family separation or made impossible by the death of the husband. Thus, except in such countries as the United States, the World War I pattern of rising death rate and falling marriage and birth rates was again in evidence. Even

in this country, the early sharp increases in marriage and birth rates apparently tapered. At about the same time, heavy casualties materialized and the death rate rose sharply. Such nations as Germany attempted to offset the high death rate by high birth rates, through furloughs, marriage loans, and elimination of abortion and contraceptives. This attempt, however, provided no assurance that the German net rate of reproduction, which has long been below one (the level of population maintenance) will not continue to fall.

Evidence to date indicates the population deficit produced by World War II will compare in magnitude to the World War I deficit, but will differ from it in composition. Military casualties were probably much heavier than in World War I, especially for such nations as China, Japan, and the United States. Civilian deaths caused by air bombardment, as well as those caused by pogroms, were greater in this war, although the toll of famine and disease has yet to be fully registered. The deficit of births, however, was probably less for most nations in this war than in World War I, since birth rates had slumped appreciably in the interwar period. It is probable, however, that the Soviet Union, with its high net rate of reproduction, incurred another staggering deficit in anticipated births during this war. The birth rate, while still high by Western standards, was far less than it would have been in the absence of World War II.

There is no way to predict, of course, whether the postwar period will witness another major restorative phase, or if so, how significant it will be. As men have returned from the war, more marriages have been contracted and more children will be born. The death rate will also be stabilized and curtailed, if disease is checked, revolution and chaos are not too prolonged, and devastated areas are restored and displaced populations allowed to take root somewhere. The most important variable in this situation is the ability of the victors to organize a reasonably stable world regime.

An important element which may restrict this postwar restorative effect will be the age composition of the various nations. World War II came, with uncanny precision, just one war generation after World War I. Thus, this war enlisted as its participants the "hollow class" or depleted age segment left by the last war. An age group already abnormally small because of the lowered birth rate during World War I did much of the fighting of this war. Since these young men were in the marriageable ages, the result may be a postwar sex ratio which features many more women than men in these brackets. Thus, the restorative phase may be somewhat limited by this factor, together with the continued operation of long-run secular trends.

At the same time, differentials in the rate of population growth may be expected to continue.<sup>1</sup> It is true that such countries as Russia, Japan, and China had extremely heavy casualties, just as the Western countries had. However, the world-wide dissemination of technology during the war will bring the possibility of increased productivity and the lower death rates to a host of previously undeveloped countries. Thus the war may provide the spark which will initiate in China, India, and Brazil the process of population increase that started in Europe over 300 years ago. These differentials would be of little concern if the world society, and particularly the world economy, were capable of adjusting to changed relations. The nationalistic, localized world of the period before World War I adjusted only in part to the presence of new industrial centers. It is by no means certain that the world after World War II will be able to achieve a better adjustment.

### *WORLD WAR II AND TECHNOLOGY*

While World War II contributed to some of the factors that threaten further world breakdown, it also enormously accentuated a compelling force that underlies the embryonic

global economy and world society. This total and worldwide conflict provided a terrific impetus to science, inventive genius, and technological innovation. The world became, in the very midst of conflict and war, vastly smaller and infinitely more interdependent. As allied belligerents pooled productive resources, as mechanized war forced new emphasis on mass production, and as vast undeveloped areas were penetrated by highway and airplane, physical and in some senses social isolation became increasingly difficult to maintain. While some of these technological achievements were intimately associated with war weapons and wartime expediency, few of them are without postwar implications.

Technology has registered perhaps its most spectacular and obvious gains in the sphere of transport and communication. World War II featured vast distances and far-flung global battle grounds, and supply lines were pivotal. As air power expanded in force and importance, technological innovations were further encouraged and accelerated. Examples of wartime technological advance in the transport field are legion, but a few will serve.

### *The Rise of the Aviation Industry*

World War II was, of course, dominated in large part by the emergence of the airplane as a decisive weapon. Everywhere aviation industries expanded in incredible fashion, with manufacture placed upon a mass-production basis and increasing astronomically. Simultaneously, airplane speeds, sizes, and ranges were stepped up to such a point that the globe has been markedly compressed. With the emergence of the polar regions as well-traveled arteries, even the very shape of the world seems to have altered. An equator-minded world seems now to be shifting its orientation with the new geography of the air. As imaginative advertisements of air lines and aircraft producers so incessantly stress, the new great circle

routes are largely independent of water and earth. The airplane is indeed building bridges across the seven seas.

Today, it is possible to travel by air from New York to Moscow more rapidly than by train from New York to Miami. The sea route from New York to Bombay is roughly 9,400 miles and requires three weeks, while the sky route is about 7,790 miles and would take about 39 hours at 200 miles per hour. The following table indicates rather clearly how the advent of the airplane reduced earth distances during World War II in point of travel time.<sup>2</sup> Travel time by air was computed on the basis of 200 miles per hour, which is now a very conservative assumption.

Approximate Traveling Time and Distances

From	To	Surface miles	Surface time	Air miles	Air time
New York	Chungking	11,300	31 days	7,500	38 hr.
New York	Moscow	5,700	8 days	4,525	23 hr.
New York	London	3,700	5 days	3,460	17 hr.
San Francisco	Brisbane	8,200	21 days	7,050	35 hr.
Chicago	Fairbanks	4,090	8 days	2,730	14 hr.

The foregoing table, while striking enough, is already becoming outmoded. The following timetable, based on the 342 miles per hour of currently projected airliners, may soon apply.

Air-Age Timetable

From	To	Airline miles	Hours
New York	Berlin	3,960	12
Chicago	Singapore	9,365	28
New York	Capetown	7,801	23
San Francisco	Brisbane	7,900	23
Washington	Moscow	4,883	14½
London	Rome	887	2½
New York	London	3,460	10
London	Berlin	574	2

Much of this advance in airplane technology was facilitated by new alloys, better engines, improved air bases, and the overwhelming compulsion of war. A significant element in this spurt, however, was the enormous increase in the output of 100-octane gasoline and other advances in the field of fuels. In the United States, new catalytic-cracking plants were designed to increase the output of the domestic industry to unprecedented levels. Not only were new catalytic-cracking plants built, but methods of cracking were vastly improved as continuous-process "cat crackers" were devised. The 100-octane gas, which is no-knock fuel, is vastly more efficient than 87-octane, and is reported to speed planes 20 per cent faster than 91-octane gasoline. Costs also dropped enormously, despite the heavily capitalized and expensive cracking process. Such gasoline, while not fully suited to present automobile engines, makes radically improved engines and car performance technically possible.

It is apparent that technological advances in the field of transport and communications were given spectacular impetus by the war. Postwar developments—perhaps facilitated by new techniques, new materials, and newly trained personnel—may be equally notable. In addition to the fast, powerful, large planes now being built, new types are emerging. Much larger planes may be made feasible by better fuel, better engines, new alloys, and more adequate bases.

For instance, in 1946 at least seven types of four-engine commercial aircraft were either in use or scheduled for use in 1947–1948.<sup>3</sup> These claimed passenger capacity ranging from 38 to 105, and cruising speeds of 200 to 410 miles per hour. At least eight types of two-engine aircraft were also either in use or scheduled for 1947. In addition, one six-engine aircraft, with a seating capacity of 204 and estimated cruising speed of 310–342 miles per hour, was scheduled. Meanwhile, military aircraft were establishing new records for long-

distance flight, were nearing the speed of sound, and had dwarfed in size the famed B-29's of World War II.

### *Improvement in Surface Transport*

Needless to observe, land transport registered comparable if not equivalent gains. While expansion in the production of automobiles or railroad rolling stock was impossible in most countries, notable achievements were nevertheless registered. New and spectacular highways and railroads were constructed and traffic on existing networks was vastly increased. Not a single continent escaped this significant impact of war, as the belligerents attempted to reach each other and to bring up supplies. In Africa, the new railroad in northwest Africa was matched by such highways as the one built from Doula, French Equatorial Africa, east to Khartoum, Anglo-Egyptian Sudan. In Asia, first the Burma Road and then the Ledo Road were extended. In the Western Hemisphere, the Alcan or United-States-to-Alaska Highway was matched by the partially completed Pan American Highway. Many of these highways and networks were built under the whiplash of necessity and are inadequate when judged by peacetime standards common to industrial countries. The fact, however, that highways and railroads can be built at all over such rugged terrain and penetrating such previously isolated areas is indeed provocative and important. Then too, less spectacular achievements, such as the improvement of Brazilian railroad facilities near the great iron deposits, may have a significant impact upon the postwar world economy. Meanwhile, improvements in fuel and technology also had an effect upon land transport, as manifested in the load and speed records established by diesel-powered railroad engines in the United States.

Sea transport did not lag far behind, although much of the wartime emphasis was upon naval vessels or upon merchant ships that, while susceptible of rapid construction, are often

relatively inefficient. It must be noted, however, that the prodigious expansion of shipbuilding facilities not only in the United States but elsewhere resulted in the introduction of mass-production techniques. Meanwhile, the production of more efficient merchant ships has now been renewed and new methods, improved diesel engines, material, and personnel are available for the building of such vessels. While wartime emphasis was upon speed of construction rather than upon operating efficiency, current building, though reduced in volume and no longer primarily in American yards, is likely to remain on a mass-production footing if encouraged by the state of the world economy.

### *Communication Advances*

Meanwhile, technology registered a startling advance in communication, including telephone, radio, and electronics in general. The global proportions and mobility of the war necessitated the introduction of communication devices and systems vastly superior to those employed in World War I. The vastly expanded radio coverage of the war by radio networks, the greater use of frequency-modulation devices, and the new impetus given to television are familiar. One of the most highly publicized and significant of electronic developments was the perfection and extensive use of radar. The wartime uses of radar have now been widely described and heralded, but the peacetime legacy has scarcely been touched. Electron tubes can count and sort merchandise; match colors and finishes; measure and control pressure, humidity, temperature, color, and acidity; detect fog, smoke, dust, and vapors invisible to the eye; control any machine operated by a relay switch; operate machines by remote control; and motivate diathermy machines. Radar also renders feasible the detection by operators on ocean vessels of other ships, icebergs, and shores, through night and thick fog; and is used in guiding and landing aircraft under all weather conditions and



over all terrains. Perhaps very short radio waves may multiply radio channels, and television, technically feasible, may at last become acceptable to consumers.

### *Other Technological Innovations*

Wartime technological advances were equally striking in the nontransport sphere, as industrial potentials everywhere were expanded. The mechanized and total character of this war put a premium upon highly capitalized, large-scale, mass-production industry. Such industry has difficulty procuring adequate raw materials even in peacetime, and during war sharp shortages in materials necessitated technological innovations which could fill the breach. The necessity for producing according to conveyor-belt methods a vast number of products previously produced on a small scale also revolutionized techniques in a host of industries. It is true that many of these industries were producing war materials and weapons exclusively, and have had to retool after the war. It is equally true that, as in shipbuilding, the emphasis was often placed upon volume and utility rather than upon cost and economic factors. Nevertheless, the end of the war witnessed the emergence of new materials, new techniques, newly trained personnel, thousands of durable machine tools, and enormous plant capacity. This increase in facilities means that the industrial nations of the world, including those newly industrialized during World War II, will need both raw materials and markets commensurate with such productive capacity.

Improvements have been notable in a host of fields. Metals such as aluminum, new steel alloys, and magnesium have gained new stature. Laminated, compressed, and impregnated wood, as well as plywood, at least temporarily replaced many a metal not available during war. A host of plastics and synthetic products, often using very abundant raw materials, were introduced or improved. Dehydration, coupled with new plastics usable for packaging, vastly expanded the area of

feasible and economic transport of perishable products. Science and technology can now offer wool from silk, silk from coal, rustless steels, fire-resistant wood, bendable glass, luminous paint, two-way private radio, improved fluorescent lighting, lightweight automobiles and locomotives, new chemicals, and important new medical discoveries in both the preventive and curative realms. Thus, more of the high-speed transport and consumer goods necessary for an urbanized, industrialized world appear feasible.

The United States, for example, now has an unprecedented industrial capacity. During World War II, the United States not only achieved virtually full employment but added an enormous increment to its plant capacity. United States yards attained a scale sufficient to dominate world shipbuilding, although actual output slumped sharply after the war. The aviation industry, with a peak wartime rate of about 2,000 planes a week, has an unspecified but vast peacetime capacity. While shortages of some raw materials continue troublesome, production capacity in synthetics, aluminum, magnesium, copper and nickel remains vastly expanded. With relatively low scales of living prevailing even in much of the United States and throughout most of the remainder of the world, there is plenty of use for this plant capacity in a global post-war economy.

Meanwhile, the great industrial nations elsewhere in the world also stepped up output. The British war production per capita was perhaps comparable to that of the United States. Significantly, newer industrial countries, especially the Soviet Union (including Siberia) increased output at an incredible rate despite the ravages of war. Meanwhile, such countries as Canada, India, Brazil, and Australia emerged as rapidly rising industrial centers. Not only did improved transport provide means to reach and mobilize natural resources, as war provided the impetus to harness them, but new sources of power were and are being discovered. Still in the future,

however, is the yoking of most of the great rivers of the world, such as the Yangtze, which falls 16,000 feet from the Kunlun Ranges. With the impetus that World War II gave to industrialization, it is now technically feasible to produce enough goods to raise scales of living throughout the world. It is also possible, however, if cultural lag and nationalism are not abated, for technology to increase the horror of a World War III.

### THE PARADOX OF TECHNOLOGY

Technology, of course, is inanimate and subject to human control. Thus, we find it at the center of some of the most tragic and ironic paradoxes of our age. On the one hand, technology has rendered modern war global in scope and increasingly violent. Contrariwise, technology furnishes powerful incentives to maintain a stable world order and it can provide the means of enforcing peace. As has been expressed: "We exist *upon* one globe, and *inside* another globe. Our planet-earth is the center of a large air-globe. . . . It is like a small spherical kernel within a large spherical orbit."<sup>4</sup> This air globe can be utilized to prosecute the war through air power, and it can be used to maintain the peace. Technology once functioned in a similar dual role when nationalism was rising to successfully challenge the political localism of the Middle Ages.

The other major paradox is that technology makes the world more interdependent, in peace and war alike, but it also spawns synthetics and ersatz products that tempt nations toward autarchy. It is argued that nations can now produce what they need through applying technology to raw materials abundant domestically. Thus it is maintained that the United States no longer is as dependent on the remainder of the world as when she had no synthetic-rubber plants, no nylon, and no plastics.<sup>5</sup>

It appears much more likely that even the expansion of domestic synthetic and ersatz production cannot reduce the mounting interdependence of the nations of the world. Such utilization of technology may well deal a crippling blow to certain industries, as the Chilean natural nitrate industry was devastated by the World War I rise of synthetic nitrogen. In general, however, many of these synthetics and ersatz commodities require raw materials that are not at all evenly distributed in the world and are not always abundant even in the leading powers. Even if these materials were relatively abundant, the distribution of land, capital, and labor would be sufficiently uneven for some countries to produce more cheaply than others, thus providing a basis for trade. Indeed, the very range of production which modern technology renders feasible means that the sphere within which comparative cost and territorial specialization and division of labor may operate is just that much larger. If it be argued that self-sufficiency protects a nation in case of war, it might also be pointed out that in the modern compressed world that policy also guarantees the coming of war.

### *CULTURAL LAG IN THE POSTWAR ERA*

In the long run, the emergence of a stable, adequately functioning global society is probably certain. A "long run," however, that extends into remote decades or centuries and does not even encompass one's grandchildren is a nebulous period for the average man to contemplate. Hence, it might be well to examine the probable outcome of this continued impasse from the viewpoint of our generation as well as that of the generations to come.

As previously noted, this war was a crisis marking another stage in a long process of social change. Modern science and its resultant technology have destroyed the basic foundations of primitive society. Localized and relatively static institutions

have reeled before new techniques of communication and transportation, new modes of industrial and agricultural production, territorial expansion, and, for a considerable time, population expansion. As primitive communities expanded they began to collide with one another and the resulting contacts led both to war and to cultural assimilation. This assimilation, following upon the establishment of cultural contact among the previously isolated groups, involved increased economic interdependence. This was marked by the rise of trade and commerce; the exchange of goods, technologies, capital, and ideas; and the emergence of a world economy as the expanding territorial division of labor became all-inclusive.

Only very slowly, however, did the distinct and previously isolated cultural groups and nations become incorporated into a world society sharing common mores and institutions. It is the lag between the appearance of the world economy and the full attainment of a world society organized in terms of common attitudes and values which has made the peaceful resolution of international conflicts impossible. The competition going on in the world for the products of a planetary economic organization cannot be resolved peacefully in the absence of "rules of the game," developed for and applied to the world-wide division of labor. Hence regressive and often violent tendencies result from the absence of such rules and institutions. These include attempts to regain the isolation which has long since ceased to be attainable, and attempts to maintain or elevate national status internationally through an application of sheer power and military prowess.

World War II could accelerate the formulation of such rules of the game, if the world is not permitted a mere return to a regime of spheres of influence and nationalistic controls. Wars, while marking at least a temporary breakdown in society, also mark growing pains in a process of change and growth. Out of wars come cultural assimilation and wider orientations, although it might be hoped that in the future

less violent catalysts can emerge. Such an accentuation of the process of social evolution is not, however, automatic and inevitable for any given generation or series of generations. Even with the United Nations and the host of other world organizations grown out of World War II, it is certain that cultural lag cannot be minimized as long as ethnocentrism, feudalism, and nationalism dominate.

### *ETHNOCENTRISM VS. COMMUNICATION AND TRADE*

Apparently the principal way to minimize ethnocentrism as a dominating, all-compelling force is to induce continued intergroup and international communication.<sup>6</sup> Technology must be allowed, under any workable postwar settlement, to expand agencies of communication and transport. These agencies include not only telephone, telegraph, radio, airplanes, busses, and railroad trains, but newspapers, moving pictures, and similar devices. Encouraging the expanding of such agencies and devices throughout the world is not enough in itself, of course, to promote communication as the sociologist understands the term. Such application of technology does, however, enormously facilitate interaction and the growth of understanding. It must be added, however, that if techniques of transport and communication are restricted to a few persons or classes, the ethnocentrism and local orientation of the masses will not be markedly effected.

Ethnocentrism thrives upon isolation, and improved worldwide technology in the communication sphere is one way of undermining isolation. Technological advances which encourage the production of more goods and the distribution of these commodities to masses throughout the world also have this effect. Thus a postwar settlement which allows communication and transport but which restricts the movement of goods will be unstable and futile.

It is clear from the above that it may now be wise to facilitate the further spread of technology, especially in the communication and transportation realm but also in trade. A vicious circle may thus be cut, through the admittedly precarious but necessary process of deliberately forging international institutions soon after the war. Ethnocentrism is one factor impeding world organization and orientation upon a lasting foundation. If ethnocentrism and inward orientation cannot be minimized, a world-wide consensus and world-mindedness cannot be achieved. However, if organization designed to facilitate intergroup contact and communication is not attempted, then ethnocentrism may continue to dominate indefinitely. Thus it may be necessary to risk premature world organization in order to make possible the gradual growth within that framework of consensus and assimilation.

### *FEUDALISM VS. HIGHER SCALES OF LIVING*

Feudalism, which necessarily tilts against world-wide orientation and a peaceful world society, presents another problem for this and succeeding generations. Technology alone cannot destroy feudalism, as was demonstrated in such nations as Germany and Japan, which merely harnessed technology to feudal, militaristic ends. Technology can spread to the ends of the earth without destroying feudalism, if the masses of men never feel its disturbing impact upon their lives. It would seem that technology, if it is to undermine feudalism, must be extended not only geographically but within the class structure of various nations. The scale of living of the masses must be raised sufficiently to disturb attitudes of resignation and to render unsupportable the subordination, rules, and myths imposed by a feudal regime. These are not the visions of utopian dreamers, but merely ways in which scales of living might be raised. These include finding the most productive locations for world industries, allowing goods to move on a

world-wide scale, attempting to solve cyclical unemployment, and trying by investment and other means to increase the producing and consuming capacity of economically subordinated areas. These programs have one common denominator—they cannot be undertaken by any single nation or small group of nations, however powerful. For this reason, the loosening of the grip of feudalism within nations must depend in part upon international cooperation and organization.

### *NATIONALISM IN THE POSTWAR WORLD*

Economic institutions cannot thrive and perform their essential function unless extreme political nationalism is replaced by less fiercely self-conscious political organization. Any postwar settlement likely to endure will be founded upon strong, stable national states, able to contribute wealth, prestige, leadership, and force to world organization. Indeed, the national state has been a relatively efficient organism in its purely domestic relations. Unfortunately, as technology has come to transcend national boundaries, the purely domestic sphere has narrowed. An increasing number of world-wide problems incapable of settlement upon the basis of extreme nationalism have emerged. Thus the national state has been weakened because it has not recognized that in some matters its sovereignty is not as broad as the problems it is called upon to solve. The national state and world organization are therefore not an either-or choice but are absolutely inseparable. It is not necessary nor probably even wise to eliminate national sovereignty at once as such, but neither is it possible to maintain such sovereignty as the final authority in the international realm.

As in the case of ethnocentrism and communication, a vicious circle exists here. Voluntary relinquishment of national sovereignty is likely only when it has been demonstrated in practice that such a course will lead to world stability and



peace. Yet, world relations cannot be placed upon even a temporarily workable foundation if such relinquishment is not first induced or forced. This circle is broken only if world organization be superimposed upon national organization, with an initial division of labor that will solve the great immediate problem. This general approach has been well stated in these words: <sup>7</sup>

The development of the nation-state did not await the dissolution of clans or feudal units; it was superimposed, and only gradually did it complete their subordination to itself. The state machinery for the administration of common interests and enforcement of the common law did not await a unanimous will to peace within the state. If it had, it would still be waiting. Its creation required the support of the strongest individual or group, but once established its operation extended the sense of community and the will to peace among the citizenry.

Similarly, the establishment of supranational institutions is conditional on the agreement of a dominant group of states. The operation of such institutions, once they have been created, will extend the will to world peace and the sense of a world community. It is to this method, which is essentially gradual, that we must look for the reduction of the state to its proper place in human affairs, rather than to a spontaneous world revolution sweeping away in a tidal wave a brotherhood the separatism of centuries. No political miracle of that magnitude waits round the corner.

During World War I, it was predicted that: "The civilizations of the West will pass out of the third age, which has been the age of the emergence of the nation-states, and into a new age, world-embracing in its scope."<sup>8</sup> While we can scarcely echo that calm assurance, at least as far as the immediate future is concerned, there are indeed powerful forces driving in that direction. While integral nationalism and international cooperation appear to be mutually exclusive, nationalism of a less self-centered type might with equal facility prove the point of departure for a wider organization.

### *ECONOMIC ORDER IN THE COMING ERA*

The nations of the world must also forge and be willing to maintain world institutions and cooperative plans which will allocate resources and move goods internationally. To do so will require a change of attitude and orientation both from the nationalistic world regime which existed prior to World War II and the policies of expediency which were followed both during and after the war.

The constant pressure of technological development and the very nature of modern business enterprise have brought us a world in which every part of the globe has become dependent upon all other parts. Yet, despite this tremendous technological development which has brought the world closer together economically, the average citizen is aware of the fact that something is lacking in an international order which has brought neither peace nor economic security to the nations of the world. Prior to the war, food was being destroyed in leading agricultural nations while people elsewhere were suffering for lack of adequate food. Nations with resources normally devoted to industrial pursuits were subsidizing agriculture in order to reduce dependence upon outside sources of supply. Nations to which payment was owed for past transactions were imposing restrictions upon trade, the only source from which payment can ultimately come. Producers in industrial countries and in raw-material producing countries were complaining of surpluses for which markets could not be found. People in all sections of the world were living at levels below any commonly accepted standard of health and decency. The plain fact of the matter is that people throughout the world are concerned as to whether human intelligence is capable of organizing the varied resources of the globe in a more efficient manner than the world has yet witnessed.

International trade during World War II was a trade in

life and death, for international trade was guided by military needs. Exports were considered in terms of the contribution to the war effort, and imports of war materials were sought in huge amounts. Former sources of supply in the hands of the enemy were replaced by production at home or by new and vast development projects abroad, out of reach of enemy hands. The United States was engaged without qualification in economic warfare on the international-trade front. Our control and direction of foreign trade included export control, freezing of foreign assets in this country, and a purchasing program laid out on a vast scale and applying to practically all the primary commodities which usually enter international trade. Trade took place not upon a basis of economic cost, but upon the basis of whether such trade was an aid to us and our allies and a hindrance to our enemies. The Nineteenth Century concept of foreign trade as a means by which economic welfare could be enhanced was momentarily replaced by needs of modern warfare. At the same time, however, peoples were impressed by the mobilization of vast and varied resources of the nations of the world for purposes of war, and are seeking a means of organizing those same resources on an international scale to contribute to economic welfare. To find it is the task of the Twentieth Century, one which calls for inventiveness, daring, bold leadership, and a large outlay of the world's resources. It is a challenge which cannot be successfully met by independently pursued policies of the purely nationalistic type characteristic thus far in the Twentieth Century.

### EPILOGUE

Considering this postwar world as if it existed in a vacuum, and not simply as another point in the spectrum of human history, is futile. The stage has already been set for this era, and alternatives are few. The nations of the world can choose, fundamentally, between the perhaps remote possibility of a

stable and peaceful world and the absolute certainty of further grinding poverty and global war. If world organization is attempted and strongly supported, with technology released for peaceful means, conceivably the attempt may nevertheless fail. But if no attempt is made, failure, abject and demoralizing, is certain, and this era will join World War II as a monument to our inability to see beneath the surface of things.

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1. For projections of these differentials, see the League of Nations Study, *The Future Population of Europe and the Soviet Union*.

2. This table and the one following are reproduced by permission from advertisements of Consolidated Aircraft Corporation and its booklet *Maps . . . and How to Understand Them*, 1945.

3. Merrill Lynch, Pierce, Fenner and Beane, *Airlines 1946*, p. 10.

4. From an American Airlines, Inc. advertisement, quoted by permission.

5. For a full-dress debate on this point, see Garet Garrett, "The Age of Alchemy," *Atlantic Monthly*, 171:41-48, January, 1943; and Herbert Feis and Thomas L. Finletter, "Alchemy—Master or Servant," same issue, pp. 48-54.

6. See Robert E. Park, "Reflections on Communication and Culture," *American Journal of Sociology*, 44:187-205, September, 1938.

7. Corbett, P. E., *Post-War Worlds*, pp. 194-195. Copyrighted, 1942, by the Secretariat, Institute of Pacific Relations. Quoted by permission.

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